

Seminar series

Securities markets: trends, risks and policies

Similar investors

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2021, 20 January - 03:00 pm (CET)



Abstract:

Consistent with theoretical predictions, we show that investors incorporate expected joint liquidation costs in their portfolio decisions. Using detailed security-level holdings of U.S. Money Market Mutual Funds (MMFs), we construct a new measure of portfolio similarity among investors and show that investors actively manage asset holdings as a function of how similar their portfolios are with those of other investors. They are less likely to roll over investments and they decrease funding when similarity increases. At the issuer level, average similarity also predicts her total funding in the next period. Importantly, issuers are unable to fully replace the loss in funding when similar investors withdraw.

Keywords: institutional investors, liquidity risk, wholesale funding

JEL Classification: G1, G21

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