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Investor Attention & Inattention: The Allocation of a Limited Resource

Abstract

When faced with a large number of choices, how we allocate attention may determine our choices as much or more than our preferences and beliefs. Consider an individual investor choosing a U.S. listed stock to purchase. She faces thousands of alternatives. It is the rare investor indeed who considers the how the attributes of each of thousands of stocks satisfy her own preferences and beliefs. Barber and Odean (2008) argue that most individual investors solve this daunting search problem by only choosing from a small subset of stocks to which their attention is attracted. Individual investors disproportionately buy – rather than sell – attention grabbing stocks. This buying pressure can result in short term positive returns followed reversals. In perceptual tasks, attention is often allocated to salient targets (Triesman 1960). In lottery choice tasks, the probabilities of lotteries with salient features are overweighted (Bordalo, Gennaioli, and Shliefer 2012). We propose that investor attention is less influenced by the salience of a security's attributes than by the decision of the financial news media and other information aggregators to prominently report information about a security. Our review of dozens of recent papers on investor attention support this hypothesis.