Do Households Matter for Asset Prices?

Davis, Kupfer, Kvaerner, Sen-Dogan & Vokata (2025)

Discussion by Aditya Chaudhry

The Ohio State University

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This Paper in Context

Behavioral/Household Finance: Interesting behaviors in household portfolio choice

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- **Open question:** Do these behaviors aggregate to impact asset prices?
  - Do large groups of households (by AUM) exhibit these patterns?
  - Do sophisticated investors trade against and undo these patterns?
  - Hard to answer “What would prices look like if households behaved differently?”

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This paper: Apply demand system to granular household holdings data in Norway

Summary

Great data

- Norwegian Central Securities Depository
- Observe all owners of every listed security on Oslo Stock Exchange
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Estimate Koijen & Yogo (2019) asset demand system

Main result: Households contribute significantly to volatility

- 26% of (value-weighted) cross-sectional volatility
  - Second most after institutions (39%)
  - More than market share (18%)

Overall: Very Interesting Paper

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- Contribution is quantitative

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- Should we include these behaviors in asset pricing models?
- Or are they a “side-show”?

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Discussion: Suggestions on how to exploit granularity of data to deepen the analysis

- Do behaviors from literature extend to broader household sample?
- What are asset pricing implications of these behaviors?

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Are these behaviors quantitatively important for household portfolio choice?

- Koijen & Yogo (2019): Significant portion of demand not explained by common stock characteristic
- Do these behaviors explain latent demand?

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Can quantify impact of these behaviors on prices, volatility

- Shut down excessive trading by households $\rightarrow$ How much lower is cross-sectional volatility?
- Shut down the disposition effect for households $\rightarrow$ How much less price-elastic do they become?
- Shut down heterogeneity across households (all invest like richest) $\rightarrow$ Which stocks benefit?

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These analyses address: Do interesting behaviors in household portfolio choice matter for asset prices?

- Inform how we model households in asset pricing theories

Minor Comments

Why is beta calculated with respect to an equal-weighted (not value-weighted) market index?

Why use only latent demand in price-informativeness regressions?

- Investors' loadings on stock characteristics may also have information about their beliefs
- Koijen, Richmond & Yogo (2024) predict cash flows using entire demand shifter term

Time-series variation in latent demand is difficult to interpret

- Estimated latent demand is relative to the cross section (i.e. demeaned within investor-quarter)
  - So across time, total residual preference or belief for this stock may rise while latent demand falls
- Shows up in two places:
  - Stock fixed effects in price-informativeness regressions
    - May consider Koijen, Richmond & Yogo (2024) cross-sectional approach
  - Decomposition of which sectors drive aggregate changes in latent demand

Conclusion

Very interesting paper

Granular household holdings data

- Can assess if behaviors documented in behavioral and household finance literatures aggregate to impact asset prices

Main comments

- Suggestions on how to exploit granularity to deepen the analysis