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Do investors trade too much?

A laboratory experiment

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Abstract

We run an experiment to investigate the emergence of excess and synchronised trading activity leading to market crashes. Although the environment clearly favours a buy-and-hold strategy, we observe that subjects trade too much, which is detrimental to their wealth given the implemented market impact (known to them). We find that preference for risk leads to higher activity rates and that price expectations are fully consistent with subjects' actions. In particular, trading subjects try to make profits by playing a *buy low, sell high* strategy. Finally, we do not detect crashes driven by collective panic, but rather a weak but significant synchronisation of buy activity.

JEL codes: C91, C92, D84, G11, G12.

Keywords: Experimental Asset Markets, Trading Volumes, Crashes, Expectations, Risk Attitude.

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