Accepted Manuscript

Title: Do investors trade too much? A laboratory experiment

Author: Jo ao da Gama Batista Domenico Massaro
Jean-Philippe Bouchaud Damien Challet Cars Hommes

PII: S0167-2681(17)30142-7
DOI: http://dx.doi.org/doi:10.1016/j.jebo.2017.05.013
Reference: JEBO 4055

To appear in: *Journal of Economic Behavior & Organization*

Received date: 13-5-2016
Revised date: 3-5-2017
Accepted date: 15-5-2017

Please cite this article as: Jo ao da Gama Batista, Domenico Massaro, Jean-Philippe Bouchaud, Damien Challet, Cars Hommes, Do investors trade too much? A laboratory experiment, *<![CDATA[Journal of Economic Behavior and Organization]]>* (2017), http://dx.doi.org/10.1016/j.jebo.2017.05.013

Do investors trade too much? A laboratory experiment

João da Gama Batista[a], Domenico Massaro[b,*]
Jean-Philippe Bouchaud[d], Damien Challet[a,e], Cars Hommes[c]

May 3, 2017

[a] *Chaire de Finance Quantitative, Laboratoire de Mathématiques Appliquées aux Systèmes, CentraleSupélec*
[b] *Università Cattolica del Sacro Cuore & Complexity Lab in Economics, Milan*
[c] *CeNDEF, University of Amsterdam & Tinbergen Institute*
[d] *Capital Fund Management, Paris*
[e] *Encelade Capital SA, Lausanne*

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.

Acknowledgments: We would like to thank the associate editor and two anonymous referees. This work was partially financed by the EU "CRISIS" project (grant number: FP7-ICT-2011-7-288501-CRISIS), Fundação para a Ciência e Tecnologia, and the Ministry of Education, Universities and Research of Italy (MIUR), program *SIR* (grant n. RBSI144KWH). None of the above are responsible for errors in the paper.

*Corresponding author. Email address: domenico.massaro@unicatt.it. Postal address: Università Cattolica del Sacro Cuore, Largo Gemelli 1, 20123, Milano, Italy.