Preregistration: Mental Models of the Stock Market

Information Acquisition Study and Trading Motives Study

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In addition to the existing preregistration plan, we preregister the Information Acquisition Study and the Trading Motives Study.

Information Acquisition Study

Study parameters

- Sample size: We aim for a sample of 300 retail investors. However, we anticipate that, given our stringent sampling criteria, we might not be able to perfectly reach this goal.

- Sample type: US retail investors who currently hold stock investments (including ETFs and ETCs) and have a household income of at least $100,000.

- Recruiter: Prolific

- Start of data collection: March 26, 2025 (after preregistration)

- We plan to work only with complete responses, and we will exclude both extreme 1% tails in the response duration. In the (typically very rare) case that a respondent submits multiple responses, we only count the first response.

- Respondents can only start with the survey if they pass an attention screener.

Study design   The respondents are asked to imagine that they want to allocate a sum of money between the stocks of two companies. They are then asked to imagine that they have the choice between five pieces of information and that they would be able to see only one of those before making the investment decision: information on the expected future business outlook/profits of the two companies, past volatility of each stock, past "beta" of each stock (the comovement of its return with overall economic growth), analyst assessments of potential misvaluation of the two stocks, and the recent one-year return of each stock. They are asked to select which of these pieces of

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information they would like to see before investing. On a subequent screen, the respondents are asked to rate the usefulness of the different pieces of information for making the investment decision. Finally, we collect some background characteristics of the respondents.

The precise instructions are attached below.

Research question How prevalent is the tendency to select the information about the expected business outlook of the two companies compared to the demand for the other pieces of information?

Trading Motives Study

Study parameters

- Sample size: We aim for a sample of 300 retail investors. However, we anticipate that, given our stringent sampling criteria, we might not be able to perfectly reach this goal.

- Sample type: US retail investors who currently hold stock investments (including ETFs and ETCs) and have a household income of at least $100,000.

- Recruiter: Prolific

- Start of data collection: March 26, 2025 (after preregistration)

- We plan to work only with complete responses, and we will exclude both extreme 1% tails in the response duration. In the (typically very rare) case that a respondent submits multiple responses, we only count the first response.

- Respondents can only start with the survey if they pass an attention screener.

Study design The respondents are asked about their current plans to purchase individual stocks or US stocks in general, in random order. In the individual stock questions, the respondents are first asked whether they currently plan to purchase the stock of any individual company. If they respond "yes", they are asked which stock they plan to purchase. They are then asked an open-ended question on why they plan to purchase the stock of this particular company. In the "stocks in general" questions, the respondents are asked whether they currently consider purchasing US stocks and report why they do or do not consider purchasing US stocks at this particular point in time.

The precise instructions are attached below.

Research question How prevalent is the tendency to refer to the expected business outlook of a company when reporting motives underlying planned purchases of individuals stocks? How often do the respondents cite the overall outlook for the economy when explaining why they currently consider purchasing US stock or not?

Instructions: Information Acquisition Study

Information for stock investment

Imagine you want to invest $10,000 for the next 12 months.

Two investment options are available:

- **Stock of company A**
- **Stock of company B**

You have to decide how much of the $10,000 to invest into the stock of company A and how much into the stock of company B. You do not have any prior knowledge about companies A and B.

If you had to pick one piece of information before deciding how to invest, which one would you choose?

Please select exactly one option.

> **Reliance on the overall economy**: How much the stocks have relied on a strong economy to do well. That is, the extent to which the stocks performed better when the economy was strong but worse when the economy was weak.

> **Over- or undervaluation**: Analysts' assessments of whether the stocks are currently overvalued or undervalued.

> **Volatility**: How unpredictable the stocks' returns have been. That is, how large the swings of the stock prices around their usual trends have been.

> **Expected business outlook**: How much profit the companies can be expected to make in the future.

> **Recent returns**: The returns the stocks made over the last year.

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Information for stock investment

Please think again about the investment decision on the previous page.

▼ **Review the investment decision** *(click to close detailed description)*
Imagine you want to invest $10,000 for the next 12 months. Two investment options are available:

- Stock of company A
- Stock of company B

You have to decide how much of the $10,000 to invest into the stock of company A and how much into the stock of company B. You do not have any prior knowledge about companies A and B.

How useful would you consider the different pieces of information for making this investment decision?

Reliance on the overall economy: How much the stocks have relied on a strong economy to do well. That is, the extent to which the stocks performed better when the economy was strong but worse when the economy was weak.

Not at all useful 1	Slightly useful 2	Somewhat useful 3	Moderately useful 4	Very useful 5

Over- or undervaluation: Analysts' assessments of whether the stocks are currently overvalued or undervalued.

Not at all useful 1	Slightly useful 2	Somewhat useful 3	Moderately useful 4	Very useful 5

Volatility: How unpredictable the stocks' returns have been. That is, how large the swings of the stock prices around their usual trends have been.

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Expected business outlook: How much profit the companies can be expected to make in the future.

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Recent returns: The returns the stocks made over the last year.

Not at all useful 1	Slightly useful 2	Somewhat useful 3	Moderately useful 4	Very useful 5

Instructions: Trading Motives Study

Your stock trading plans

Do you currently consider increasing or decreasing your overall investments in stocks?

> I consider increasing my overall stock investments.

> I do not plan to change my overall stock investments.

> I consider decreasing my overall stock investments.

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Important

On the next page, you will encounter an <u>open question</u>.

From our experience, it can take about **2 minutes** to complete this question.
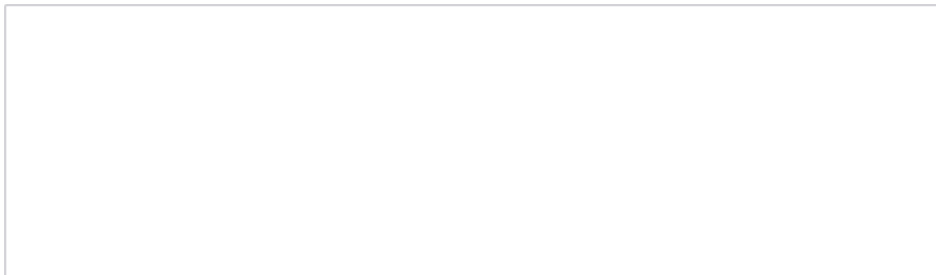
Your responses are very valuable for this research project. Therefore, **please take your time to respond carefully.**

[PAGE BREAK]

Why now?

On the last page, you indicated that **you currently consider increasing your overall investments in stocks.**

Please explain <u>why you think this is the right time</u> to increase your overall stock investments.

[PAGE BREAK]

Your stock trading plans

Do you currently consider purchasing the stock of any particular company?

Yes

No

[PAGE BREAK]

Your stock trading plans

Which company's stock do you consider purchasing?

Note: If you consider purchasing the stock of several companies, tell us your favorite.

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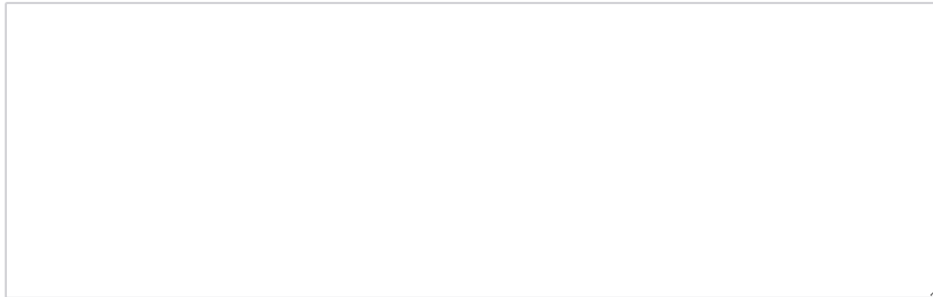
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Why this company?

On the last page, you indicated that you consider purchasing the stock of

sdfdsf

Please explain why you currently consider purchasing the stock of this company.

Please respond in complete sentences.