

Local Culture Influences Investment Returns, According to INTRA Study of 45 Nations

Professor Dr Thorsten Hens of the University of Zurich visited Luxembourg today to present findings from the 'International Test of Time Preferences and Risk Attitudes' (INTRA) - a study that he has co-authored with leading financial academics from around the world. To date, 45 nations have participated in the survey which indicates that - despite the increasing interconnectedness of global markets - local cultural differences continue to exert an influence on investment behaviour and returns, meaning that some nationalities are more likely to invest successfully than others.

Luxembourg, 27.09.2011. One of the world's top behavioural finance experts, Professor Dr Thorsten Hens is running an on-going international study into time preferences and risk attitudes in order to establish whether financial decisions and stock market returns have a cultural dimension. Today Prof Hens visited Luxembourg to present findings from the study, based on the responses from 45 nations.

In an era of global trading where any investor can invest in any market, traditional finance contends that local culture should have no influence on investment decisions or market returns. However, Professor Hens gives two reasons why we should question this. First there is the 'home bias' which shows that investors are likely to invest the majority of their assets in their domestic market. Second is the fact where a company has a listing on two exchanges, the trading price for its shares is more likely to be driven by information coming from the domestic market.

Why look at time preferences and risk attitudes?

Comparing different reactions to stock market volatility, Professor Hens observes that 'Emotional' investors are most likely to buy high and sell low. This is because they lack a strategy, are strongly influenced by short-termism and can't bear to lose money.



Press release
27th September 2011

In sharp contrast value investors follow a strategy of buying heavily discounted stocks (relative to the real value of the company if sold as a going concern). Deliberately buying at a discount enables the value investor to get closer to the ideal of buying low and selling high.

Huge volumes of academic research conclude that value investing is a strategy that consistently delivers superior long term returns. But it's by no means a comfortable strategy to follow because, while it focuses on individual stocks, it is not immune to the movements of the market as a whole. Value stocks offer excess returns when markets rise but are often punished more during market downturns. To be a successful value investor requires patience and a high threshold of loss tolerance.

“More than 120 separate academic studies have shown that value investing consistently delivers more alpha than other strategies, long term. But not everyone is temperamentally suited to this approach,” says Professor Hens.

“The two attributes required above all are patience and loss tolerance. The Intra study shows us that the Nordic and Germanic cultures are best suited to value investing in terms of their patience and that Anglo Saxon cultures will accept the highest losses. Least likely to be successful value investors are the African and Eastern European cultures.”

“Having found these cultural differences between the various countries, it is then interesting to consider John Nash's ‘equilibrium perspective’. If fewer people are chasing value stocks in these emerging market nations, it means that higher potential value premiums are available for patient and loss tolerant investors from other nations. Thus the ideal investment product would be a Value fund investing in Emerging Markets and sold to Germans, Scandinavians and Anglo-Saxons.”

- Ends -



Appendix Luxembourg INTRA Study and explanatory paper.

About Thorsten Hens

Thorsten Hens is Swiss Finance Institute Professor of Financial Economics at the University of Zurich, a Fellow of CEPR and Adjunct Professor of Finance at the Norwegian School of Economics in Bergen. He studied at Bonn and Paris and held professorships in Stanford, Bielefeld and Zurich. Since 2007 he is the Head of the Department of Banking and Finance of the University of Zurich and since 2003 the scientific coordinator of NCCR-Finrisk. His research areas are behavioural and evolutionary finance. Thorsten Hens is ranked among the top 10 economics professors in the German spoken area (Germany, Switzerland and Austria). In researching how investors make their decisions, Professor Hens draws on work in psychology and applies insights from biology in order to understand the dynamics of financial markets. His consulting experience includes application of behavioural finance for private banking and evolutionary finance for asset management. He is in the advisory board of banks like LGT, top value investors like Sparinvest and Value Intelligence Advisors and large pension funds like the city of Zurich pension fund and Vita from Zurich Financial Services.

About Sparinvest:

Founded in 1968 in Denmark, and with pan-European operations in Luxembourg since 2001, Sparinvest is an international asset management company, authorised to operate within the framework of UCITS IV by the Luxembourg CSSF. The group is known as a specialist in value investment - both for equity and bond funds. Sparinvest is owned by a broad range of Danish institutional shareholders who support the group's independence and prudent investment strategy, focused on providing competitive risk-adjusted long-term returns. As a natural step to further enhance its risk-focused approach, Sparinvest signed the United Nations Principles for Responsible Investment in 2009 and has now integrated environmental, social and governance (ESG) risk factors into the investment process for all its actively-managed funds. At end 2010, Sparinvest managed €8.84 billion on behalf of private and institutional investors. More information at www.sparinvest.eu

For further information, please contact:

Nichola Marshall, Sparinvest Marketing & Communications

Phone: +352 26 27 47 32

nim@sparinvest.lu

