

Date of the event:

On Thursday 3rd June 2010
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before May 31st, 2010
- At the following address : lsf-events@uni.lu

Information:

Ms Deborah Marx
Tel : +352 46 66 44 6873

<http://www.lsf.lu/eng/Research/Seminars-and-Conferences/Seminars-Workshops>



The LSF is pleased to invite you to the following lunch seminar:

Adaptive behavior leads to under-diversification

*By Ernan Haruvy
University of Texas at Dallas*



Thursday 3rd June 2010
from 01:00 PM to 2:00 PM

Adaptive behavior leads to under-diversification

The **L**uxembourg **S**chool of **F**inance

By Ernan Haruvy

Is pleased to invite you to the

LSF Seminar

In a given period, a diversified fund, by virtue of being a weighted average, will perform somewhere in the middle range of its components' respective performances.

This means that adaptive investors who look to the past to adjust expectations about future returns will shun diversified funds. That is, adaptive reaction to feedback implies under-diversification when the investor gets complete feedback on the performance of the diversified fund as well as its components in a given period.

Three laboratory experiments and one quasi field experiment explore this possibility and its implications. We find that the availability of complete feedback drastically reduces diversification. Under-diversification is observed even when the decision makers receive a complete description of the payoff distributions and when underdiversification lowers expected return.

