

**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  
2<sup>nd</sup> 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](mailto: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



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## **LSF Seminar**

### ***Adaptive behavior leads to under-diversification***

***By Ernan Haruvy***

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.

