Reaching for yield: Evidence from households

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Abstract

The literature has documented "reaching for yield"—the phenomenon of investing more in risky assets when interest rates drop—among institutional investors. We analyze detailed transaction data from a large brokerage firm to provide direct field evidence that individual investors also exhibit this behavior. Consistent with models of portfolio choice with labor income, reaching for yield is more pronounced among younger and less-wealthy individuals. Consistent with prospect theory, reaching for yield is more pronounced when investors are trading at a loss. Finally, we observe and discuss the phenomenon of "reverse reaching for yield."