Juhani Linnainmaa ESSAYS ON THE INTERFACE OF MARKET MICROSTRUCTURE AND BEHAVIORAL FINANCE

HELSINKI SCHOOL OF ECONOMICS

ACTA UNIVERSITATIS OECONOMICAE HELSINGIENSIS

A-219

C-

Table of Contents

	Ι	Introduction			
	II	The Helsinki Exchanges :			
	III	Market Microstructure			
		A I	nformed Trading.	4	
		В Т	Fransparency and Anonymity	6	
		C L	Limit Order Trading	7	
	IV	Behavior	ral Finance	. 9	
			nvestor Sophistication and Irrationality		
		B I	Disposition Effect.	.12	
	V		y of the Three Essays		
			The Anatomy of Day Traders	.13	
			Who Makes the Limit Order Book? Implications for Con-		
			rarian Strategies and the Disposition Effect	.14	
			Does It Matter Who Trades? Investor Sophistication,		
			Broker Identity, and Permanent Price Impacts		
	Refe	rences	· · · · · · · · · · · · · · · · · · ·	.15	
1	The	The Anatomy of Day Traders		20	
	Ι	Data and	d Demographic Characteristics •	.22	
			Denning Day Traders and Control Group		
			Demographics of Day Traders and Control Group.		
	II		cision to Day-Trade.		
	III		Trading Behavior.	.29	
			Activity. Liquidity, and Buy-Sell Ratios During a Trading		
			Day		
			Intraday Analysis of Trade Execution.		
	IV		ance of Day Traders.		
			Day Traders' Day Trades		
			Measuring Returns		
	x 7		Evaluating Performance		
	V				
			Comparison of Returns and Decision to Quit		
	1 /1		Changes in Behavior		
	VI Refe		ions		
	Ken	ichees.		.40	
2			s the Limit Order Book? Implications for Contrarian		
			and the Disposition Effect	52	
	Ι		ional Setting and Data		
			Helsinki Exchanges		
			Data		
	П	Microstructure Behavior			
	III		ructure Performance		
		A	Information Content of Trades	.61	

	В	Trading Performance of Households and Institutions	63
	С	Flow of Liquidity and Information	.66
IV	Implica	ations for Contrarian Strategies and Disposition Effect	68
	А	Properties and Consequences of Limit Orders	.68
	В	Examination of Investment Strategies	.69
	С	Examination of Disposition Effect	.74
	D	Re-Interpretation of Earlier Research	.79
V	Conclu	sions	.81
Refe	rences.		.82

Does It Matter Who Trades? Investor Sophistication, Broker Identity, and Permanent Pric

Inve	estor	Sophistication, Broker Identity, and Permanent Price	
Imp	acts		86
Ι	Inst	itutional Setting and Data	.89
	А	Helsinki Exchanges	.89
	В	Data Sets and Sample	.89
II	Differences among Brokers.		
	А	Customer Bases, Behavior, and Performance	93
	В	Sophistication	.95
III	Dete	ermining Underlying Trader Type.	.96
IV	Mar	ket Reaction to a Trade	101
	А	Testing for Market Reactions	101
	В	From Sophistication to Price Impact	1.03
	С	. Arrival of Information through Broker Identities	107
V	Con	clusions	109
Refe	rence	s	110