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Returns-chasing and dip-buying among retail investors

Retail investor market participation fluctuates notably month-to-month, and is difficult to explain given changes in household financial variables like incomes and liquidity. This report examines month-to-month variation in investing decisions, using de-identified data from over 10 million individuals from January 2007 through April 2024. People move more money into investment accounts following sustained market gains (returns-chasing). Sharp market volatility—often associated with market declines—can also drive increases in investment flows (dip-buying). Both patterns differ in magnitude by demographic groups.

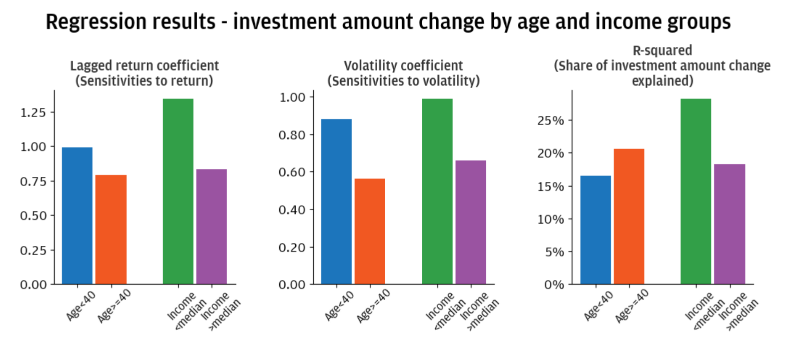
Why it matters: Volatility in the use of financial markets as a savings vehicle is difficult to explain with fundamental drivers such as personal income growth and cash liquidity. Our findings highlight the importance of understanding the behavioral tendencies of retail investors, particularly in the context of financial stability and investor education. The increased role of the stock market in wealth accumulation for a broader portion of the population underscores the need for policies that support sustainable wealth accumulation and address psychological biases in investment choices.

Additional context: Our data centers on investing allocations out of take-home pay, a perspective that likely differs from more stable saving patterns exhibited in tax-advantaged retirement plans like 401(k)s. Our granular data allow for disaggregation by income level, age, and gender, providing a comprehensive view of retail investing behavior.

Findings:

1. Individuals move more money into investment accounts following sustained market gains.
2. Sharp market volatility—including that associated with market declines—can spur large increases in transfers to investment accounts in the same month.
3. Market price action has a more pronounced relationship with the investment dynamics of investors that are male, below 40 years-old, or lower-income (Figure 1).

Figure 1



Note: The plot shows regression output using the specification of Model 3, run separately for investment flows of each demographic group. The dependent variable is monthly investment flow amount relative to the trailing 6-month average in percentage change terms. The return variable in the regression is the three-month return in the S&P 500 index lagged one month. We measure volatility as square root of the sum of squared returns.

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Data explanation: Figure 1 presents regression results of investment amount change by age and income groups, using three bar charts to show the lagged return coefficient, volatility coefficient, and R-squared. We show results for investors aged below 40 or over 40 and investors with income below or over the median. Younger and lower-income investors exhibit higher lagged return coefficients and volatility coefficients. The data of older and lower-income investors exhibit higher unexplained changes in investment amount.

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