Investor Gambles and Political Signals

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Abstract

Examining two decades of market behavior, we show investors 'gamble' more when the quality of political signals declines. As political information becomes more ambiguous, investors trade more lottery-type (low-priced, high-volatility, high-skewness) stocks in the hope of hitting the investment 'jackpot'. In parallel, they trade fewer non-lottery-type stocks. This trading volume differential between top and bottom deciles of gambling-prone investors is statistically and economically significant in number and dollar volume. Our findings are robust after controlling for economic policy uncertainty, VIX, and macroeconomic variables, and after including other measures of lottery stocks, political signal quality, and controls for federal lottery jackpots.

JEL Codes: G12, G14, G18

Keywords: Gambling, Skewness, Political Signals, Volatility, Uncertainty

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