



# 401(k) PARTICIPANT TRADING DURING MARKET UPHEAVAL

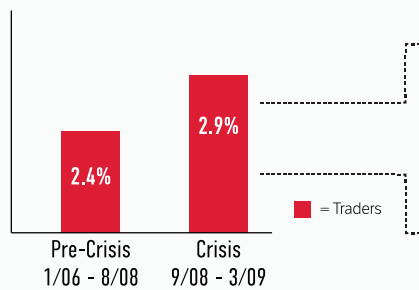
## A LOOK BACK AT THE FINANCIAL CRISIS OF 2008-2009

In their 2011 paper "Trading in 401(k) Plans during the 2008-2009 Financial Crisis", Ning Tang, Olivia S. Mitchell, and Stephen P. Utkus drew on a large sample of 401(k) plans administered by Vanguard to compare participant trading activity before and during the Financial Crisis.

### FEW PARTICIPANTS TRADE, BUT THE FINANCIAL CRISIS MOVED SOME TO TRADE FOR THE FIRST TIME

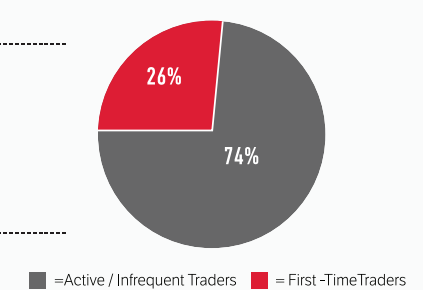
# 21% MORE TRADERS

The Financial Crisis caused a big relative bump in the portion of 401(k) participants trading in their accounts.



# 26% OF \$ TRADED

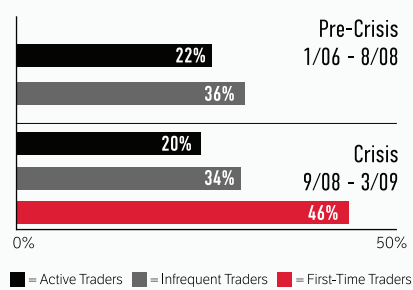
"First-Time Crisis Traders" accounted for 26% of total 401(k) assets traded during between 9/2008 and 3/2009.



### "FIRST-TIME CRISIS TRADERS" MADE BIGGER CHANGES AND MOVED MORE OUT OF STOCKS COMPARED TO REPEAT TRADERS.

# MOVED MORE MONEY

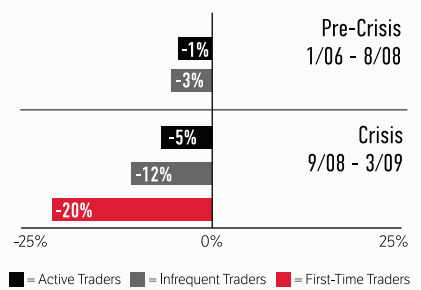
First-time traders made more significant changes to their accounts, moving more of their balance on average.



...AND

# OUT OF EQUITY

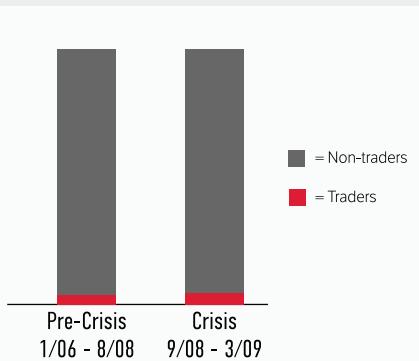
Net equity flows were negative for repeat and first-time traders, but first-timers moved more of their money out of stocks.



**Active traders** traded at least three times pre-crisis ; **Infrequent traders** traded 1-2 times pre-crisis; **Repeat traders** are Active and Infrequent traders; **First-time traders** did not trade in the pre-crisis period.

# BUT ...

Trading participants remained a small group compared to total plan populations



### PARTICIPANTS CAN SURPRISE YOU: BEWARE OF CONVENTIONAL WISDOM

#### FOLLOWED CONVENTIONAL WISDOM

- Repeat traders may be who you think they are: Repeat traders were found to be older, wealthier, more likely to be web-registered, and more likely to be male than "First-Time Crisis Traders".
- A few participants account for most 401(k) trading: The most active traders tended to have the most complex portfolios and accounted for 2/3 of trade volume during the entire period.

#### DEFIED CONVENTIONAL WISDOM

- 401(k) trading may be more nuanced than usually assumed: Pre-Crisis, a sharp market decline drew a momentum shift out of stocks, but during the crisis lead to a contrarian shift into equities.
- Heightened awareness of balances may curtail counterproductive behavior: Pre-Crisis, trading patterns didn't change when participants received their statements, but traders boosted their equity holdings by 2% during Crisis-period statement mailings.

- Tang, Ning, et al. "Trading in 401(k) Plans during the Financial Crisis." Reshaping Retirement Security, 2012, pp. 101-119., doi:10.1093/acprof:oso/9780199660698.003.0006.  
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