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**GLOBAL INVESTING: US investors feel the pull of the old country IMMIGRANTS OFTEN DEFY MARKET LOGIC BY CHOOSING TO BUY STOCKS IN THEIR COUNTRY OF ORIGIN:**

Financial Times; Jan 30, 2002  
By ALISON BEARD

US investors let ancestry play an important - and possibly irrational - role in their stock purchases abroad, according to a new study.

The money flowing from the US to a particular country rises as the income level of emigrees from that country and their descendants climbs. The correlation is not driven by the first generation, which would have obvious financial and emotional ties to their country of origin, but by immigrants' children and grandchildren, who are less likely to have logical reasons for maintaining the financial links.

"I would expect this bias in the people who have just come, but not the people who have been here for generations," said Utpal Bhattacharya, finance professor at Indiana University's Kelley School of Business and co-author of the paper. "This notion of investing based on sentimentality is controversial."

Prof Bhattacharya, who is Indian, decided to investigate the national origin bias after realising how geographically concentrated his own portfolio was. "We teach our students 'Diversify, diversify, diversify', but after I bought all the stocks I liked in the US, I bought only in India," he said.

Along with Peter Groznik, a Slovenian-born PhD student at Indiana, Prof Bhattacharya collected US census data from 1990, 1997 and 2000 and estimated the income level of 75 national origin groups. Controlling for investment "fundamentals", such as a country's economic health and the sophistication of its stock market, the men found that countries with wealthier immigrant populations in the US received the most investment from the US.

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In 1997, more than Dollars 25bn was funnelled to countries with large national origin groups in the US. The UK, which boasts the largest and wealthiest population of expatriates and descendants, usually receives the most money. That phenomenon could be explained by other factors, such as shared language, but Prof Bhattacharya and Mr Groznik found that across all countries, national origin was more important than language, race, religion and even distance in dictating investment flows.

The study may lend credibility to behavioural finance experts who have begun to question the rationality of individual investors. Fourth-generation Irish-Americans who buy shares in Irish companies are unlikely to be relying on unique insight into their great-grandparents' homeland.

Steven Schroko, a managing director in the JP Morgan private bank, has clients of western European heritage who are "just starting" to look in Asia. "The fourth generation is very interested in venturing out," he said. "Of course, they haven't placed a dime there yet, but maybe the fifth generation will."

At the same time, some people have logical explanations for their ancestral bias. "If the wealth was generated in the country before immigration, the (first generation) will continue to invest there (because) their expertise ties back to the market," Mr Schroko said. Then "they introduce their children to the other movers and shakers in the country . . . and the ties remain tight".

He advises clients to diversify geographically, "but when I have someone who says 'I've known this (non-US) company for generations', that knowledge mitigates the diversification principles."

Another rational explanation for the correlation between immigrant populations and investment flows is that institutions are driving the trend, Prof Bhattacharya noted.

"If . . . the institution is partial to the country where many rich immigrants have come from . . . the motive is informational," he wrote. "The institutional investors should be more familiar with a country whose immigrants have lived in the US for a long time."

Perhaps the clearest conclusion to be drawn from Prof Bhattacharya and Mr Groznik's research answers some questions in social science about assimilation theory. If investments are an indicator, it seems the US is not a "melting pot", where immigrants shed their identities to become Americans. It is more a "salad bowl", where national origin groups cling to their roots.

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