

DOMESTIC AND FOREIGN BIAS - JAPANESE INVESTMENT TRUST HOLDINGS IN THE POST-BIG BANG ERA

Abstract

This dissertation is an analysis of how domestic and foreign bias has affected Japanese overseas portfolio investment in the post Big Bang reform era. Times series analysis is used to identify three clear eras of investment behavior in terms of both composition of foreign and domestic asset and also the relationship between holdings and the underlying price of those assets. These time frames are then tested using existing models of investment preferences and incorporating content analysis of fund prospectuses to identify variables unique to Japan. The main findings are that it demonstrates how investment from Japan differs from the gravity model of foreign investment in that while trade ties, legal origin and governance are important, geographic and cultural distances are not, and may hinder investment. A lack of access to investment is explicitly rejected as an explanation to the well-observed lack of Japanese portfolio investment in Asia. In addition to the potential effects remaining in investors minds from the Asian Financial Crisis, the study introduces two unique attributes that contribute to this bias against investing in the Asia pacific region, over reliance on exports among economies of the region and a persistent bias against four countries that Japan has lingering foreign relations issues with: China, Russia, South Korea and Taiwan.

Keywords: domestic bias, foreign bias, behavioral investment, Big Bang, portfolio preferences, intra-Asian investment, mutual funds, investment trusts