

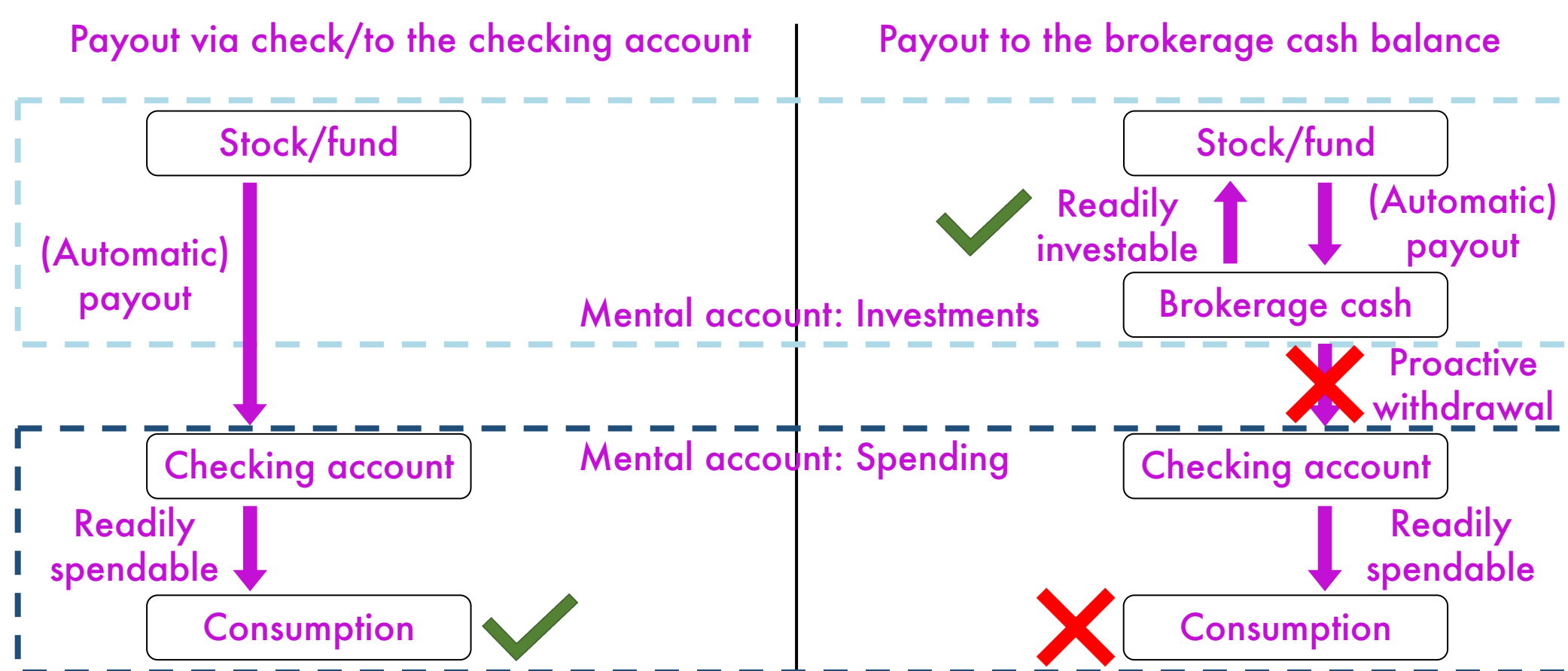
Reinvesting Dividends

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Key takeaways

- 1) Challenging a long-standing fact: Previous studies find that retail investors largely consume dividends. Using six different datasets, we show that dividend consumption rates have decreased substantially over time from 75% in the 1990s to less than 20% today. Instead of consumption, we find reinvestments into securities portfolios of up to 80%.
- 2) Our proposed explanation: In the past, dividends were sent out as checks in the mail which made it easy and tempting to consume them. Today, dividends are directly deposited into brokerage cash positions. From there, the path of least resistance is to reinvest the proceeds, e.g., during rebalancing.
- 3) A novel element in the choice architecture of retail investors: Brokerage cash acts as a buffer that keeps investment proceeds from being spent and instead ready for reinvestment.

The story



Previous research

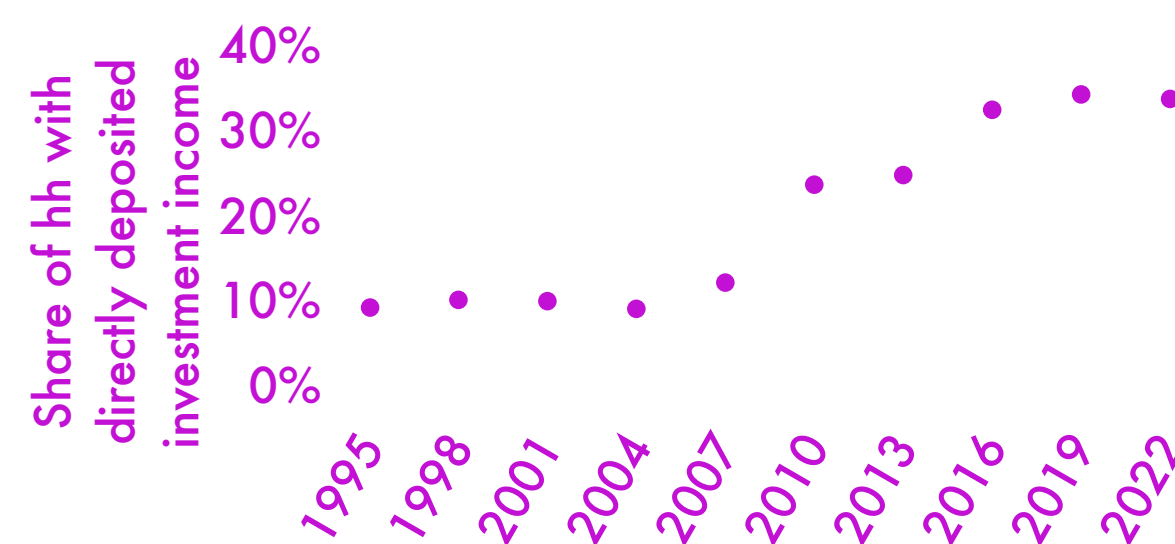
Study	Data	Results	Our reconciliation
Baker, Nagel, and Wurgler (2007)	CEX 1988-2001 US brokerage clients 1991-1996	18% reinvestment 75% consumption	See Results 1) and 5) below
Kaustia and Rantapuska (2012)	Finnish retail investors 1995-2002	0-15% reinvestment 2 weeks after payment	Only short-run responses investigated
Di Maggio, Kermani, and Majlesi (2020)	Swedish households 1999-2007	20-50% reinvestment 40-60% consumption	See Results 6) below
Bräuer, Hackethal, and Hanspal (2022)	German online bank clients 2017-2019	9% reinvestment 14% consumption 1 week after payment	Dividends are paid to checking accounts in this dataset

Results

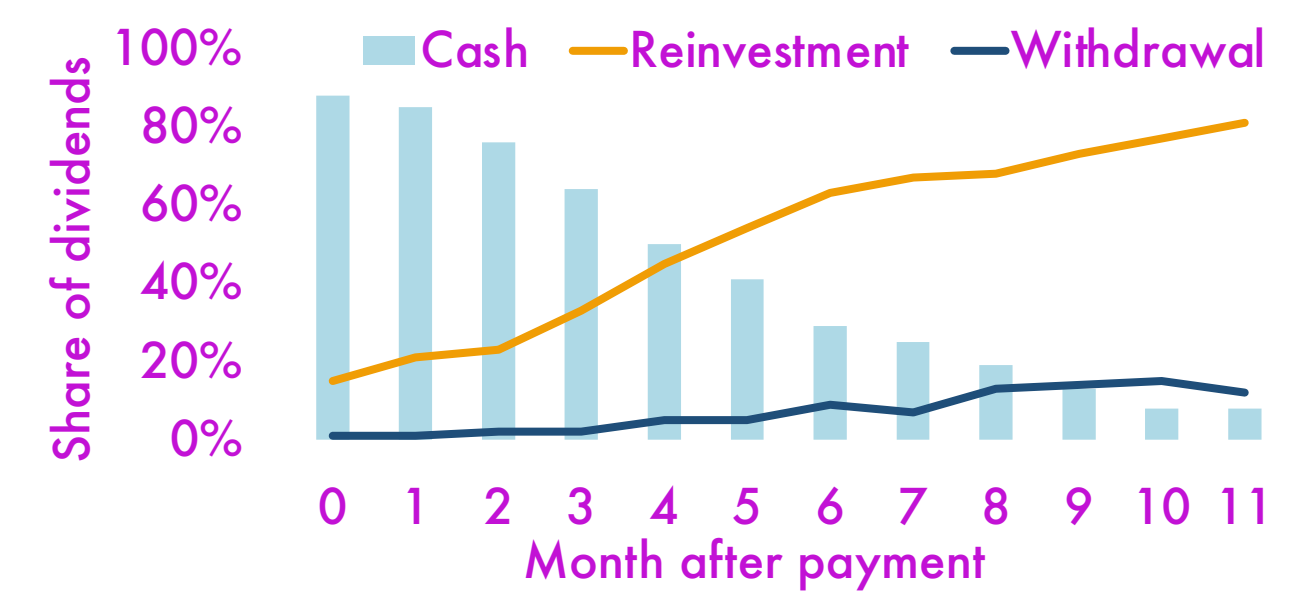
- 1) Consumer Expenditure Survey: Strong decline in dividend consumption over time, from 86% in 1988 to 26% in 2012 ($0.26 = 0.860 - 0.025 * [2012 - 1988]$)

	Dep. var. is total expenditures	
Dividends	0.748*** (0.118)	0.860*** (0.131)
Dividends * (Year - 1988)		-0.025** (0.011)
Sample period (one obs. is one hh-year)	1988-2001 (replication of BNW, 2007)	1988-2012 (extension)

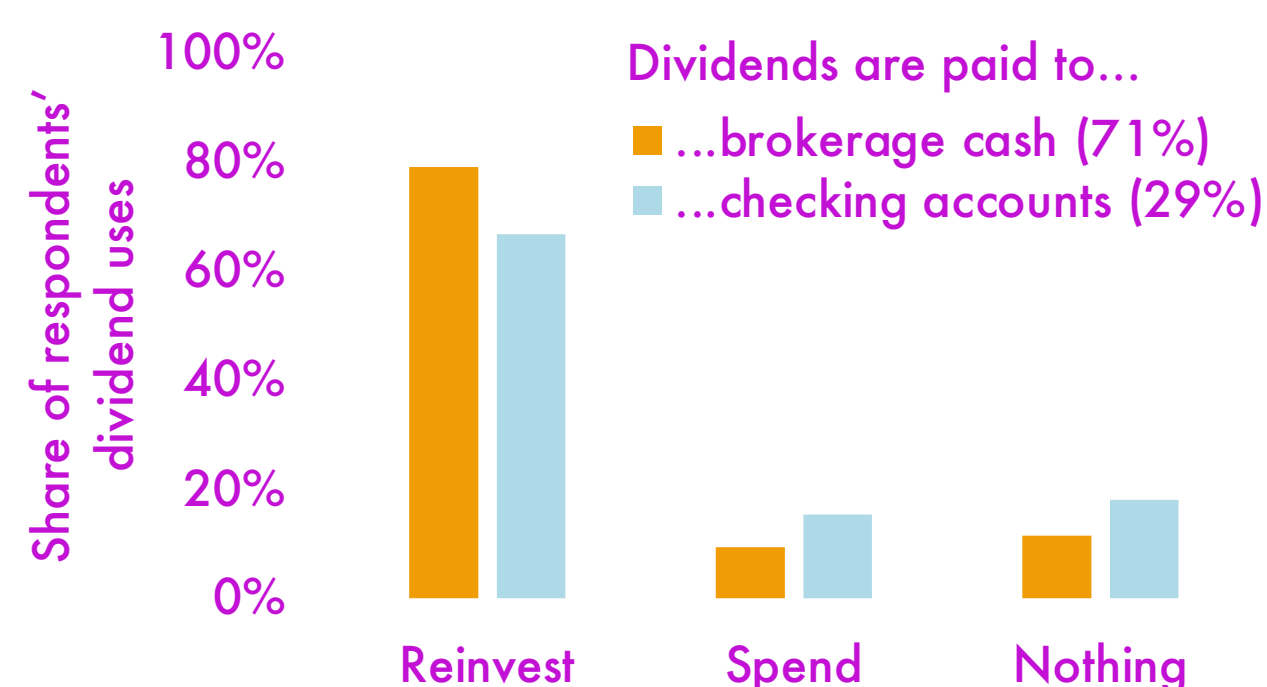
- 2) Survey of Consumer Finances: At the time that dividend consumption declines, the usage of direct deposits of investment income (instead of checks) grows.



- 3) German brokerage data from 2007 to 2011: Initially, dividends are parked as brokerage cash. Over the course of a year, dividends are reinvested from there.



- 4) Online survey in 2022: Most investors' dividends are paid to brokerage cash positions. Such investors reinvest more and consume less.



- 5) US brokerage data from 1991 to 1996: BNW (2007) find little reinvestment in regressions without controls for investor characteristics. We find that investors with high dividend yields invest less, on average. If we control for this, reinvestment estimates increase.

	Dep. var. is net portfolio withdrawals in month t (= divs. in month t - net investments in month t)	
Ordinary divs. in month t	0.91*** (0.06)	0.86*** (0.16)
Average ord. divs. months t-1 to t-11	0.20 (0.16)	-1.07*** (0.39)
Dummy for the highest DY-quintile		0.53*** (0.11)

- 6) Simulation: DKM (2020) impute consumption in a dataset with many unobserved bank accounts. If dividends remain in unobserved accounts, consumption is overestimated. In a carefully calibrated simulation, we show that consumption rates in DKM (2020) may be overestimated by up to 40 percentage points.

Wealth grp.	5-50	50-70	70-90	90-95	95-100
Panel A: Dep. var. is actual consumption					
Dividends	29%	31%	30%	29%	30%
Panel B: Dep. var. is imputed consumption					
Dividends	72%	56%	46%	38%	35%
% unobs. bank accts.	72%	36%	32%	24%	22%