Michel is more likely to invest in Michelin shares

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Abstract: The potential influence of individuals' first name in portfolio choices is examined through a telephone survey of a random sample of French individuals divided in two groups: the "Michel" (n_1=130) and "the others"(n_2 = 212). Participants were asked to imagine that they must choose to invest in one share only among five: Carrefour / Danone / Michelin / Total / Vivendi. They were also asked questions about their familiarity with these companies, their financial literacy and their actual possession of shares. Our main result is that the "Michel" are more likely to choose Michelin (*16.5%* against *6.2%*, *p = 0.001*). The effect remains significant when we control for familiarity and financial literacy. There is no "spouse" effect.

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1. Introduction

The name letter effect refers to people's tendency to prefer their name letters rather than other alphabet letters (Nuttin, 1985). It occurs because people feel ownership over their name letters and extend their positive evaluation of their self to these letters. Different studies have shown that this preference can be strong enough to affect people's choices. For instance, in experiments made by Brendl *et al.* (2005) and Hodson & Olson (2005), participants exhibited a preference for brand names that start with their name initials, a phenomenon the former authors called "name letter branding". In field studies, Chandler *et al.,* (2008) and Beckkers (2010) also showed that people tend to donate more for charities whose names are similar.[3] There are two reasons to expect the same effect in portfolio choices. First, shares have the name of their company and names companies are brands. Second, because picking shares is a very difficult task for which many people are not well equipped, details such as an

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[3] Until very recently, names were also believed to affect surprisingly the choice of a spouse (Jones *et al.* 2004), occupations and even living locations (Pelham *et al.* 2002). But Simonsohn (2011) seems to have definitively closed the controversy by showing that all these correlations were due to various spurious effects.

unconscious sense of attraction for the name of a company or a fund could potentially make a difference. However, except a recent study of Knewtson and Sias (2010) based on undergraduate student managing university endowments funds, this influence has never been investigated in portfolio choices. One obvious reason is that because the effect is marginal in all likelyhood, its isolation is difficult to establish empirically in absence of a large sample of individual investors with available information on names. We chose here a simpler method: Asking a random sample of individuals identified by their first name to express their preferences by making choices between different shares.

2. The survey

2.1 Method

A telephone survey of a sample of French individuals was run. Participants were divided in two groups: the "Michel" ($n_1=130$) corresponding to those whose first name was Michel, Michelle or Micheline, and "the others" ($n_2=212$). Michel is a well-known first name in France, especially common among the fifties and more (INSEE, 2007). It was chosen because of its proximity with the company Michelin. The "others" are composed of both spouses who accepted to answer to the survey in absence of their husband or wife (51 people) and others (161 people).

Participants were randomly chosen in the phone directory in the department of the north of France, which excluded people who refuse that their phone number appears in the directory and those who only possess mobiles. The survey was realized between March 2010 and June 2010. People were asked to imagine that they must choose to invest in one share only among five: Carrefour / Danone / Michelin / Total / Vivendi. They were also asked questions about their familiarity with the shares, their financial literacy and their actual possession of shares (see the questionnaire in Appendix A1). The five companies cited were chosen because they are all known by a very large majority of people. Their name is associated with everyday life products. All belong to the CAC 40 index.[4] Furthermore, there was no recent media hype about any of them at the beginning of the survey. It also appeared retrospectively that no major positive or negative event affected those companies during the survey. Companies were ranked in alphabet order.

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[4] Michelin Shares appear to be riskier however. Over the last two years, the beta estimate is 0.75 for Carrefour, 0.59 for Danone, 1.18 for Michelin, 0.87 for Total, 0.83 for Vivendi.

2.2 Results and discussion

Carrefour and Danone were most often chosen and most often cited as the most familiar companies (see table 1 in Appendix A2). Part of this reflects a possible order effect (Carrefour and Danone were the two first companies cited by the interviewer) and a familiarity effect (people tend to prefer to invest in those companies just because they are more familiar to them). In coherence with the findings of Frieder and Subrahmanyam (2005) and Grullon *et al.* (2004), the familiarity effect is relatively strong here since 63% of participants indicated the company in which they would prefer to invest as one of the two companies cited as most familiar. Michelin is ranked fourth. Without any control, figure 1 shows that the "Michel" clearly more often chose Michelin:

Figure 1 : Proportion of participants who chose Michelin
among the « Michel » and the « others »
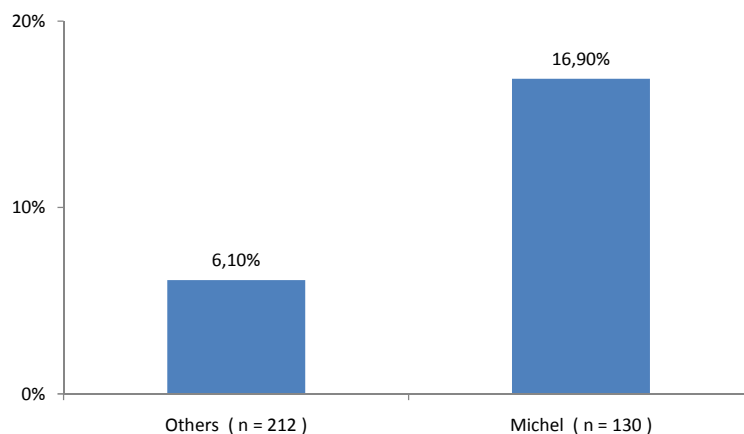
Though these percentages must be treated with caution given the low frequencies, the difference is statistically significant $(p = 0.001)$. Table 1 shows furthermore that the "Michel" do not cite more often "Michelin" as one of the companies they are familiar with. This means that if the previous difference catches a name effect, it is not mediated by a familiarity effect.

An alternative explanation of this result would be that the Michel are indeed different on other hidden dimensions that explain their preference for Michelin. In the sample, the "Michel" differ from the others on two aspects: They more often own stocks and they more often declared having no knowledge about financial markets. This difference could be explained by an age effect (the "Michel" are on average older and wealthier) or a sociological

effect (The "Michel" are sociologically different from the others given the differential distributions of first names among different socio-economic status).[5] One way to control for the existence of these potential confounding factors is to restrain the group "others" to the spouses (n=51) who accepted to answer to the telephone survey given the relative social and age homogeneity in a couple. In the sample, spouses of the "Michel" are not different from the "Michel" in terms of financial knowledge $(\chi^2 = 0.027, p = 0.87, n = 181)$ or in terms of shares possession $(\chi^2 = 0.399, p = 0.53, n = 173)$.[6] And among 51 spouses, only 1 indeed cited Michelin, which is obviously less than what the "Michel" did. A Fisher's Exact test clearly rejects the null hypothesis of independence $(p = 0.005)$. Table 2 presents odd ratios estimates of choosing Michelin controlling for familiarity with Michelin,[7] knowledge of financial markets and possession of shares.

Table 2

Logistic regression (Odds Ratios)　　　Dependant Variable: **Michelin**

	model 1	model 2	model 3	model 4
Michel	3.11**	3.23**	2.86***	5.01***
	(p=0.002)	(p=0.002)	(p=0.000)	(p=0.000)
Familiarity		3.73***	3.78***	4.04***
		(p=0.000)	(p=0.000)	(p=0.000)
Knowledge			2.85*	2.19
			(p=0.012)	(p=0.094)
Possess				0.61
				(p=0.394)
Mc Fadden R²	0.0437	0.0986	0.01281	0.01374
n	342	342	342	330

*p<0.05　**p<.01　***p< .001

Familiarity = 1 if Michelin is cited by the individual as one of the two most familiar company and 0 otherwise

Knowledge = 1 if the individual indicates knowing well or a little financial markets and 0 otherwise

Possession = 1 if the individual indicates possessing or having possessed stocks and 0 otherwise.

In each model, the odd ratio of choosing "Michel" instead of another stock is significantly higher than one. Controlling for familiarity and knowledge of financial markets appears rather to reinforce the name effect. On average, compared to the others, the "Michel" are 3 times

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[5] To maximize the number of people accepting to answer to the telephone survey, they were only asked to answer to the four questions presented in the appendix. The data does not contain information about the professional status, income or age.

[6] Share possession is a binary variable. Knowledge about financial market has been recoded as the dummy variable *Knowledge* = 1 if the individual indicates knowing well or a little financial markets and 0 otherwise.

[7] As said previously the name of the individual does not affect the probability of citing the firm as the most familiar in our sample. This justifies here to treat the declared familiarity with Michelin as an independent variable.

more likely to choose Michelin than another share. Thinking of Michelin as a familiar company increases but also having some financial knowledge increase the probability of choosing to invest in Michelin with a magnitude that is closed to the fact of being named Michel. Shares possession has no significant effect.

3. Conclusion

This study has obvious limits. Choices are virtual and restricted. And the magnitude of the influence of the name has been obtained by maximizing the similarity between a first name (Michel) and the name of a company (Michelin). But it presents, along with Becckers (2010), some first indirect evidence of a possible name effect in portfolio choices. Further research is needed to estimate its size in practice. In all likelihood, it must be very marginal and cannot be exaggerated. If this name effect was confirmed in field studies however, it would reinforce however one of the main behavioral finance findings that seemingly inconsequential details like the first name of the investor or his ability to pronounce the name of a share (Alter and Oppenheimer, 2006) can affect his financial choices in predictable ways.

Appendix

A1: Questionnaire

Q1) Suppose you have to buy the shares of companies listed on the stock market. I give you 5 names of companies. You can choose only one. In what shares do you prefer to invest?

Carrefour   Danone   Michelin   Total   Vivendi

Q2) I give you again the names of the companies : Carrefour, Danone, Michelin, Total,Vivendi. What are the two most familiar for you ?

Q3) Do you know how financial markets work ?   Not at all / Yes a little / Yes I know well

Q4) Last question : Do you own or did you owned shares in the past?   Yes / No

A2: Descriptive statistics

Table 1 : Share Preference and familiarity with companies among the Michel and the Others.

	% among the "Michel" (n=130)	% among the others (n=212)
Choice		
Carrefour	32%	35,4%
Danone	24%	17,0%
Michelin	17%	6,3%
Total	19,50%	31,6%
Vivendi	7%	9,7%
Familarity*		
Carrefour	43,08%	74,53%
Danone	73,98%	35,38%
Michelin	28,46%	27,36%
Total	43,85%	42,92%
Vivendi	6,15%	7,08%
Knowledge about financial markets	34,60%	66,50%
Possession of shares	55,28%	23,67%

* People gave two names among five.

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