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Loyalty-Based Portfolio Choice

by [Lauren Cohen](#)

Abstract

I evaluate the effect of loyalty on individuals' portfolio choice using a unique dataset of retirement contributions. I exploit the statutory difference that in 401(k) plans stand alone employees can invest directly in their division, while conglomerate employees must invest in the entire firm, including all unrelated divisions. Consistent with loyalty, employees of stand alone firms invest 10 percentage points (75%) more in company stock than conglomerate employees. Support is also found using variation in loyalty between different groups of employees, both across and within firms. The cost to employees of loyalty is large, and can amount to nearly a 20 percent loss in retirement income.

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