

# Investment Behaviour of Chinese and United States Retail Investors under Risk Events

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**Abstract.** This paper provides a comprehensive review of existing literature on decision-making behaviour of retail investors in China and the US when facing the same risk events. By comparing cross-national studies, behavioral economics theories and empirical analysis to find differences in risk perception and herd behaviour. It shows that cultural background, regulatory and informational environments are key influencing factors. Which means that Chinese retail investors tend to react more quickly and emotionally to policies, while US retail investors are on the other side they based on company fundamental and more concern about long-term returns. For example, the lack of direct comparative data undermines the persuasiveness of research conclusions to a certain extent; moreover, different studies adopt diverse modeling frameworks, making it difficult to effectively integrate and compare the research results. Based on this, future research should strive to construct clearer and more comprehensive cross-cultural datasets to provide a more solid data foundation for studies. Additionally, it is necessary to deeply explore the impact of psychological biases on the decision-making behaviors of Chinese and American retail investors, so as to further improve the relevant research system.

**Keywords:** China and US, retail investor, risk events, behavioral biases.

## 1. Introduction

With the fluctuations in the financial market become worse, experts pay more attention on performance of individual investors during risk events and their impact on market stability and stock prices [1]. Different from institution investors, individual investors will influenced by external factors and make some non-rational decisions. For example the disposition effect and herd effect [2]. Studies shows that retail investors always exhibit a tendency to over-trading. Especially appear under extreme market. Individual investors tend to sharply increase their trading frequency. As a result, the stability of overall market will be influenced. However institution investors usually maintain relatively stable strategies.

China's stock market has two important features: dominated by retail investor and active participation by the government. The largest group of investor in China consists of retail investor. In contrast, most stocks in the US are held by institutional investors.

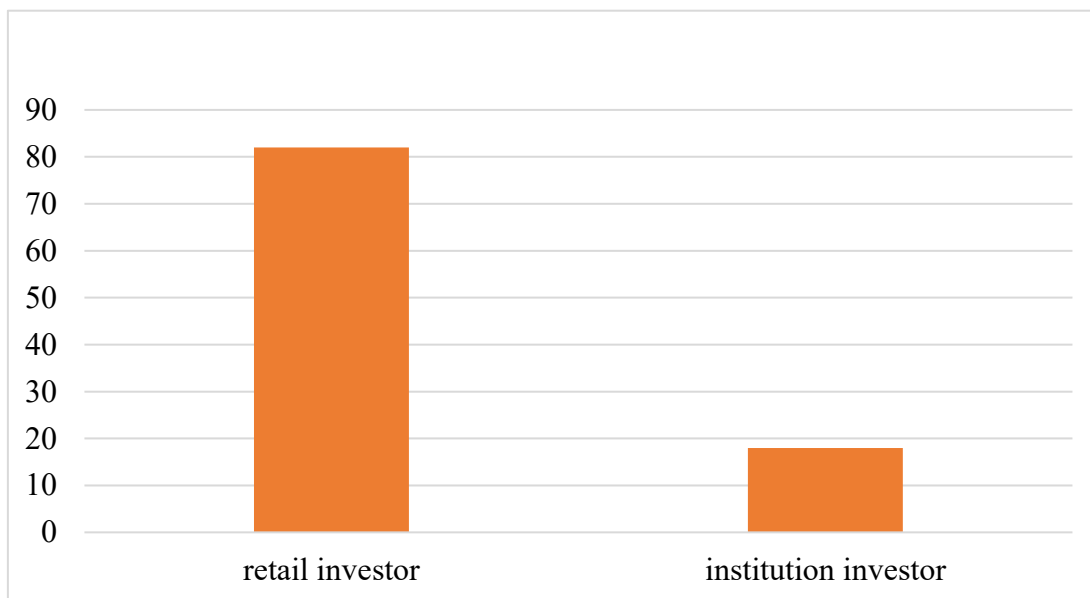
It use the summary statistics from Table 1 of, based on proprietary data from one major stock exchange in China from 2016 to 2019, to create Figure 1. To summary statistics, first complied daily account-level trading data for each A-share stock [3]. Then calculate summary statistics by averaging across all stocks and trading days. Figure 1 shows that individual investors often shows a tendency to over-trade, contribute the most to the daily volumes nearly 80%. On the other side, institution investors account for less than 20%, it keeps stable trading strategy.

To make a striking contrast, it present the trading summary statistics in the US stock market by figure 2. The paper rely on the subpenny algorithm method to identify aggressive retail trades using marketable orders. Figure2 shows that 8% of daily trading volume in the US is from individual investors. In contrast, institution investors account for more than 90% in US trading market [4].

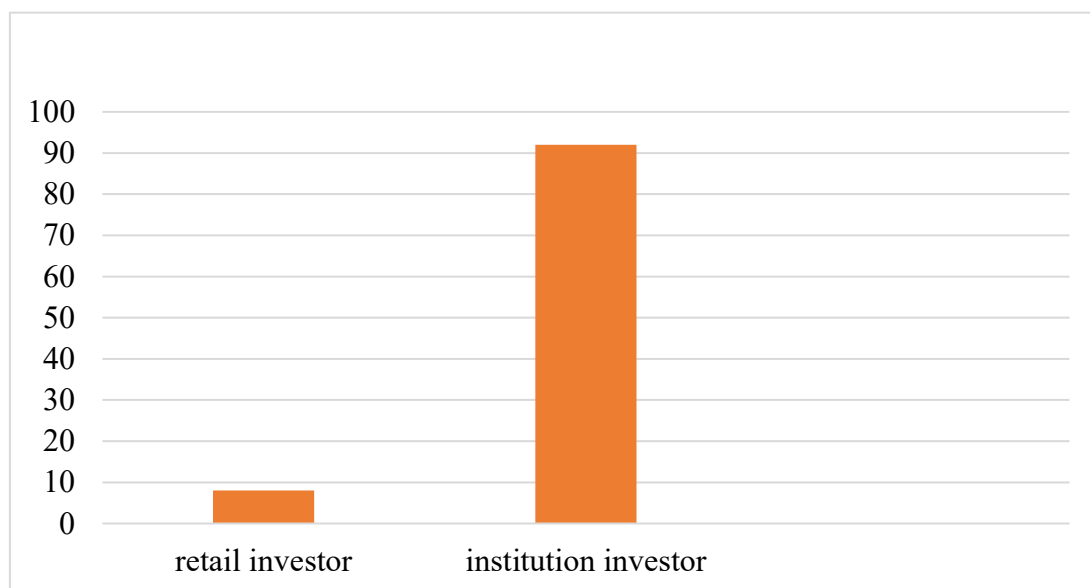
The comparison of the two figures clearly illustrates the drastic differences of composition of trading volume between the Chinese and US stock market.

According to existing research, Chinese investors are more sensitive to policies than those in the US stock market. However, American investors are more sensitive to the words of entrepreneurs.

Based on existing studies, this paper will explore investor psychology. It focus on two major risk events: the global economics shock caused by COVID-19 and the effects of policies. The study start from these events and compares with Chinese and US market to explore how individual investors behave under different culture and background. The study mean to organize the differences in investment behaviour between retail investors and institution investors. Then compare the decision-making difference of individual investors in China and US when facing the same risk events.



**Fig. 1** Exclusive data of major stock exchanges from 2016 to 2019 (Picture credit: Original)



**Fig. 2** Summary statistics of trading in the United States stock market (Picture credit: Original)

## 2. Literature Riview

It famously coined the term “black swan” to describe rare and unpredictable outlier events, which have an extreme impact. Many studies have found that investors often make decisions that are not fully rational because of emotions and psychological reasons. This section focus on past research how different types of investors sentiment and behavioral biases affect trading decisions [5].

## 2.1. Investor Behaviour Under Market Volatility

When stock market experience volatility, individual investors often respond with irrational decision-making. Instead of making calm, many investors react emotionally and overconfidence, leading to behavioral patterns such as disposition effect, herd effect and panic selling. These behaviors can result in poor investment choices and worsen overall market instability. Some typical irrational behaviors like disposition effect and herd effect all common during uncertain times. Such behaviors are often enlarged when investors lack financial knowledge or access to clear information. During panic periods, the pressure of short-term market changes and the fast spread of rumors can easily lead to overreactions. As a result, market prices may become less efficient with prices reflecting emotions rather than companies' fundamentals. Its important to understand these behavioral responses to reduce the negative impact of volatility on individual investors.

## 2.2. Behavioral Biases and Investment Sentiment

With the rise of behavioral finance, numerous theoretical and empirical studies have shown that investors are not completely rational. Investor sentiment is an important part of behavioral economics, it shows how investors can be irrational. As a key factor, it has gained a lot of attention from both researchers and people in the financial industry.

According to existing but also influences single stock returns. Distinguishing between retail investors and institutional investors becomes an important point. The trading behaviour of retail investors matches the noise trader model [6]. The Chinese market, there are many retail investors and most of them lack relevant knowledge and training. Influenced by noise, individual investors always invest irrationally, thereby affecting stock returns [7]. As a result, when retail investors are optimistic, experts may choose to pay less attention to the market to avoid making less incorrect predictions. This can lead to less informative stock prices and lower analyst attention which may harm stock returns.

Especially for the country where retail investors make up a large portion, this effect becomes even stronger. On the other side, institution investors who are a professional investors often take a leading role in investment decisions. When institution investors are optimistic about futures, their actions can give positive signals to the market. This can boost the confidence of other investor and encourage them to join in. As market sentiment improves and more investors take a part in, stock price will go up. Whats more, institutional investors usually have strong research teams and access to more information, so they can know market changes and opportunities earlier. Compared to retail investors, institution investors are less influenced by emotions and usually follow more rational strategies. Their decisions are often based on research and long-term value. When they share their ideas to public, it helps reduce noise in the trading market and lead more fundamental information which improves market efficiency. Table 1 shows the comparison of retail investor characteristic in China and the US.

**Table 1.** Comparison of retail investor characteristic in China and the US

category	China	US
trading share	over 80%	less than 10%
information source	government policy	company report
common behavioural	herd effect, over trading	loss aversion
reaction speed	quick and reactive	slower and strategic

## 3. Comparative Analysis of Investor Behaviour under Risk Events

This section presents the main findings of the study by comparing the behavioral responses of Chinese and US retail investors under three major risk events: the global shock caused by COVID-19 and policy driven market fluctuations. Each sector will analyse one event, focusing on the emotional reactions and trading behaviour in both countries.

### **3.1. Investor Reactions during COVID-19**

The COVID-19 outbreak in 2020 caused sudden and serious uncertainty in global financial market. Investors all around the world felt panic when asset prices dropped and fluctuations of financial market. During this period, retail Investors in both China and the US reacted emotionally, but their behaviour showed different levels of sensitivity. According to the World Bank's research, the global economy shrank by 4.3% in 2020, which was a serious setback, similar to the damage caused by the two world wars and the Great Depression . In China, strict lockdown measures led to quick shifts in investor sentiment. Many retail investors became more worried about the social and economic effects of COVID-19, financial markets dropped sharply. Unexpected shocks, panic, and fear can make investors sell their stocks quickly during a unpredictable event[8]. found that fear of COVID-19 increased stock market volatility. Liu et al. said that investors' worries about the economy and fear of the virus made stock prices drop more than usual [9]. showed that strong investor feelings can lead to low returns, especially for stocks that are hard to price or trade. They also found that investor sentiment can spread between countries through private capital flows. In contrast, US retail investors responded more slowly at first but became very active after the government introduced stimulus policies and the market started to recover [10]. Trading apps saw as many individual investors rushed to buy cheaper stocks, especially in technology and travel industries. This showed a change from fear to optimism, influenced by market news and company announcements.

### **3.2. Behavioral Responses to Policy Driven Risk Events**

Retail investors are often very sensitive to policy changes, especially when they lack experience or market knowledge. In China, government policy are seen as signals for future trends. In 2021, government launched the carbon neutrality policy, many retail investors rushed to buy stocks in the new energy sector. Some green energy companies' stock jumped quickly. Driven not but earnings fundamentals, but by policy optimism and herd behaviour. However, when the government later adjusted its subsidy strategies, market sentiment quickly reversed and price go down. This highlights how policy driven excitement can quickly shift to panic in retail investors' mind, especially when expectations are shaped by public discussions and short- term hype.

On the other side, US retail investors tend to react differently. While still influenced by policy news, their responses are often more tied to market expectations and perceived long- term impact. In 2025, rising panic between China and the US led to a new round of trade restriction and tariffs announcements, it led to significant uncertainty in global markets. While institution investors remained cautious, many retail investors showed a different response. Rather than reacting with panic, a large number of individual investors waited a temporary opportunity. Some international companies like Apple, Nvidia and Amazon attracted strong interest. As retail investors believed these firms had the strong business fundamentals, past earning performance and trust its brand value. Despite policy uncertainty, these investors focused on potential benefit not short-term losses. This pattern suggests that US retail investors tend to process policy risks through a lens of long-term optimism. Their decisions are shaped not only by external news but also by expectations about future growth and company fundamental, leading to behaviour that is more strategic than reactive.

## **4. Limitations and Weaknesses**

Although this paper offers a comparison of retail investor behaviour in both China and the US, there are several limitations. First of all, most of the information used is based on existing studies and secondary data, without the support of original datasets or statistical testing. This limits the ability to conduct in depth quantitative analysis. Second, the comparison is mainly descriptive and doesn't fully account for internal differences within each country such as behaviour might vary by age, region and trading experience. In addition, it just focuses on two countries lack of universality, retail investor dominance is also seen in other developing markets like India, South Korea, and Indonesia. Whats more, the study pay attention to a few major events like COVID-19 and policy shifts, which are

unusual in nature and may not reflect how investors behave in more or typical market conditions. Lastly, while social media is mentioned as an influence on investor sentiment and herd behaviour, this area is not explored in depth. The paper also not include data or examples that directly show how information spreads or affects investors' decision making. As both market continue to change, investor behaviour may shift in ways that this paper is not able to fully capture.

## 5. Conclusion

This paper compares the behaviour of retail investors in China and the US during major risk events. It focus on emotional responses, trading decisions and sensitivity to policy. The analysis shows that cultural background and regulatory environment play a key role in shaping investor behaviour. Chinese retail investors tend to react more quickly and emotionally to government policies, while US investors often take a long-term view based on company fundamentals. These studies results help to explain why the same risk event can lead to different investor actions in different markets. Understanding such differences is important for improving market stability. Future studies should aim to address the above limitations by incorporating more direct, cross-country data on retail investor behaviour. Making large scale survey data and recording trading platform information to offer deeper insights in decision making processes. Comparative experiments also can help to find psychological factors that drive investors in different cultural and policy environment. It is also important for future research to explore the interaction between retail and institution during volatile periods. While this paper focuses on retail investors, institutional behaviour may influence the market impact of retail trading. In addition, future research can explore how factors like trading apps, investors knowledge and media influence affect investment decisions. These elements may play different roles across countries. Building a clearer framework that includes both cultural background and investor psychology could help explain why retail investors behave differently in global markets.

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