

INTERNATIONAL PORTFOLIO DIVERSIFICATION AND GENETIC RELATEDNESS

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Abstract: *The purpose of this paper is to shed some light on how relatedness between counterparties can explain investment behavior, specifically how much can investor's inherited traits influence the exchange of capital. We use the genetic distance index and regress it against the foreign bias measure on pairs from 40 countries on a time period from 2001-2016. We identify that the prior exerts a significant impact on foreign investment decision, even when controlling for previous documented determinants of foreign bias. These findings reflect that international portfolio allocation is obstructed by the cultural wedge created between source and destination country, since relative difference in these characteristics disturb the flow of equity investments across markets, which ultimately hinder diversification.*

Key words: *foreign bias; genetic distance; foreign equity portfolio allocations; cultural dimensions*

JEL Classification: *G11; G15; Z13*

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