Exploring Home Bias among Finnish Retail Investors: Behavioural and Demographic Insights

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Abstract

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This thesis explored the persistence of home bias among Finnish retail investors, with a particular focus on behavioural and demographic factors. Although investment theory emphasizes the benefits of international diversification, many Finnish investors continue to concentrate their portfolios in domestic equities. The study examined why this pattern persists, especially when global investing has become easier through digital platforms.

The research combined modern portfolio theory with concepts from behavioural finance, such as familiarity bias, loss aversion, overconfidence, and financial literacy. The survey, which was distributed in late 2024, was based on these theoretical insights and aimed to capture behavioural patterns across different investor groups. The survey received 30 responses from individual Finnish investors who manage their own portfolios. Data was analysed using descriptive statistics and cross-tabulation to identify behavioural tendencies and demographic differences. Although the sample size was small, the patterns observed were consistent with prior studies and offered valuable preliminary insight.

The findings confirmed that home bias remains common, especially among older, retired, or less educated investors. Respondents frequently cited familiarity with domestic companies and better access to information as reasons for favouring Finnish stocks. While most acknowledged the benefits of diversification and expressed openness to investing abroad, practical concerns like taxation complexity and lack of information still discouraged them. The results suggest that home bias is less a deliberate strategy and more a result of habits, limited knowledge, and subtle psychological preferences.

Key words
Home bias, Behavioural finance, Familiarity bias, Retail investors, Finland, Diversification

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1 Introduction

This thesis examines the phenomenon known as home bias within the investment portfolios of Finnish retail investors. It seeks to understand why many Finnish investors continue to favour domestic securities despite well-established investment theories advocating for international diversification to mitigate risk and optimize returns. The analysis combines insights from traditional financial theories with behavioural finance, focusing particularly on psychological and demographic factors such as familiarity, loss aversion, investor confidence, and financial literacy.

1.1 Background

Diversification across international markets has long been recognized as an effective strategy to reduce country-specific risks in investment portfolios. Traditional investment theories, particularly modern portfolio theory, recommend spreading investments broadly to achieve better risk management. Despite this well-founded logic, investors in Finland, as in many other countries, commonly display a strong preference for local securities, a pattern identified as home bias.

The persistence of home bias is particularly intriguing considering how accessible international markets have become due to modern digital investment platforms. Such accessibility theoretically removes many practical barriers to global investing. Yet many Finnish investors still predominantly invest in familiar local companies, which suggests behavioural and psychological factors are significantly influencing their decision making.

1.2 Purpose and Research Question

The central purpose of this thesis is to explore the underlying reasons Finnish retail investors exhibit home bias. Specifically, it investigates the extent to which behavioural and demographic factors influence this phenomenon. Traditional theories would predict a more balanced global portfolio allocation; however, investor behaviour often diverges from such idealized strategies. Understanding this divergence provides insights into real-world investment practices and the psychological factors driving investor decisions.

The primary research question guiding this thesis is: Why do Finnish investors demonstrate home bias, and how are behavioural and demographic factors contributing to this preference?

To thoroughly address this question, the following investigative questions structure the research:

IQ1: What is considered home bias?

IQ2: What are the consequences of home bias?

IQ3: Who exhibits home bias, and to what degree?

IQ4: How do Finnish investors perceive domestic and foreign equity?

These investigative questions establish a clear framework, linking theoretical insights, survey data, and practical implications to present a cohesive and detailed analysis.

Table 1. Overlay matrix connecting investigative questions with theory and methods

Investigative Questions	Theoretical Framework	Research Methods	Outcomes
IQ 1. What is considered home bias?	Modern Portfolio Theory (MPT), Behavioural Finance (Familiarity Bias)	Quantitative research (Survey and Descriptive Statistics)	Define home bias and identify portfolio concentration in Finnish securities.
IQ 2. What are the consequences of home bias?	Diversification, Risk Perception, Loss Aversion	Quantitative research (Survey and Descriptive Comparison of Attitudes)	Validate diversification gaps and link perceived risk to home bias.
IQ 3. Who exhibits home bias, and to what degree?	Behavioural Finance (Familiarity, Overconfidence)	Quantitative research (Descriptive Statistics and Group Comparison across Demographics)	Identify demographic patterns and behavioural tendencies related to home bias.
IQ 4. How do Finnish investors perceive domestic and foreign equity?	Behavioural Finance, Risk Perception, Trust in Domestic vs. Foreign Markets	Quantitative research (Descriptive Statistics, Group Comparison)	Highlight preferences, perceived barriers, and potential incentives for diversification.

1.3 Scope and Delimitation

This study specifically targets individual retail investors in Finland who actively manage their own investment decisions. Institutional investors or managed portfolios are deliberately excluded, as the intent is to explore the decision-making behaviours of private individuals directly. Data collection took place through a survey conducted in late 2024, capturing investor attitudes at that specific period.

Furthermore, this study exclusively focuses on equity investments, deliberately leaving out other asset classes such as bonds, real estate, or cryptocurrencies. Similarly, broader economic conditions, macroeconomic factors, and specific market performances lie outside the scope of this thesis. The primary goal is to understand the psychological and behavioural reasons behind individual investment decisions in the context of domestic versus international equity markets.

1.4 Benefits

Understanding home bias isn't just an academic exercise. For retail investors, recognizing psychological blind spots, like the subtle pull of familiarity, might be the first step in rethinking their portfolios. Financial advisors and educators may leverage insights from this study to develop targeted strategies that encourage broader international diversification among retail investors.

Academically, the research contributes fresh empirical data on investor behaviour within Finland, a market less frequently explored compared to larger economies. By applying behavioural finance theories in a concrete setting, this thesis also serves to validate and potentially refine theoretical models, offering a useful reference for future research on behavioural finance in smaller, digitally advanced investment environments.

1.5 Key Concepts

Behavioural finance is a field examining how emotional, psychological, and habitual factors influence investment decisions, challenging traditional views of rational market behaviour (Barberis & Thaler, 2003; Thaler, 2005).

Home bias describes investors' tendency to disproportionately favour domestic securities despite potential diversification advantages offered by global investing (French & Poterba, 1991).

Familiarity bias refers to investors' preference for investments they perceive as familiar, such as local companies, driven by a greater sense of trust and personal connection (Huberman, 1999).

Loss aversion illustrates investors' psychological tendency to fear losses more strongly than they value equivalent gains, often causing them to avoid perceived riskier foreign investments (Kahneman & Tversky, 1979).

Overconfidence occurs when investors overestimate their knowledge or abilities, potentially leading them to overly concentrate their investments in familiar markets they falsely perceive as predictable or understandable (Odean, 1998).

Financial literacy measures an individual's understanding of key financial principles, including risk, diversification, and return expectations. Improved financial literacy typically corresponds with more diversified investment decisions and more effective management of portfolio risks (Lusardi & Mitchell, 2014).

2 Theoretical Framework

2.1 Introduction to the Theoretical Framework

This chapter lays out the theoretical background that supports the analysis of home bias among Finnish retail investors. It integrates established financial theories with insights from behavioural finance, explaining key concepts and biases that shape investment decisions. The theories outlined here directly inform the design of the survey, the interpretation of the results, and help ensure a solid theoretical basis for the conclusions drawn in this thesis.

The framework starts with traditional investment theories on diversification, progresses into behavioural finance, and ends with a detailed look at how these theories specifically apply to Finland.

2.2 Traditional Investment Theory and Diversification

Traditional investment theory emphasizes diversification as crucial for reducing risk and improving the long-term stability of investment returns. Modern portfolio theory, developed by Harry Markowitz and expanded upon by Bodie, Kane, and Marcus (2014), argues that investing across different asset classes and international markets helps to balance portfolios against country-specific risks. International diversification specifically addresses the challenge posed by the fact that economic conditions in various countries often do not correlate strongly.

However, empirical studies indicate investors frequently fail to diversify internationally. French and Poterba (1991) documented significant home bias in markets like the United States and Japan, where investors predominantly favoured domestic equities despite clear theoretical advantages of international diversification. These findings suggest factors other than traditional rational assumptions influence investor behaviour.

2.3 Behavioural Finance

Behavioural finance developed as a reaction to the gaps in traditional theory. It tries to explain why real investors, including those in Finland, often act in ways that look irrational, like ignoring diversification or sticking with familiar companies despite global options. Barberis and Thaler (2003) argue that emotions and biases distort investment decisions, but their framework doesn’t fully explain why home bias persists even among highly educated investors, as seen in this study.

This approach is particularly relevant to home bias. Even if international diversification appears advantageous, behavioural finance proposes investors may still avoid foreign investments due to psychological discomfort, uncertainty, or simply a preference for what is familiar and perceived as safer.

2.4 Behavioural Biases Behind Home Bias

Several behavioural biases help explain why investors favour domestic markets. One of the most influential is familiarity bias, first described by Huberman (1999), who found investors consistently preferred companies and markets with which they felt personally familiar or connected, even if other options promised similar or better returns.

Loss aversion, introduced by Kahneman and Tversky (1979), further influences investor decisions. This concept describes how investors fear potential losses more intensely than they value equivalent gains, causing them to avoid investments perceived as riskier, such as unfamiliar foreign markets.

Overconfidence is another critical behavioural bias. Odean (1998) demonstrated that investors often overestimate their market knowledge and abilities. Overconfident investors trade excessively and are more likely to maintain concentrated portfolios. This bias reinforces home bias by encouraging a false sense of understanding about local markets.

Financial literacy also significantly influences investor behaviour. Lusardi and Mitchell (2014) showed that low financial literacy correlates with poor diversification. Investors lacking sufficient financial knowledge often perceive foreign markets as overly complicated, thus reinforcing their preference for domestic investments.

Additionally, Statman (2017) argued that investors frequently make decisions based on emotional or expressive motivations, not purely financial ones. Investors might derive satisfaction from supporting local businesses or prefer familiar investments for emotional security rather than objective economic reasons. This emotional dimension, according to Gaar, Scherer, and Schiereck (2020), helps explain persistent home bias beyond purely rational risk-return calculations.

2.5 The Finnish Context of Home Bias

Finnish investors show a strong domestic preference, even with widespread access to digital platforms like Nordnet and eQ. Part of this may reflect cultural habits; Finland’s post-crisis economic memory and the prominence of certain national companies in media could reinforce trust in domestic firms over unfamiliar foreign options. According to the Finnish Investor Barometer by Pörssisäätiö (2025), local companies such as Nordea, Neste, UPM, and Fortum consistently dominate Finnish investment portfolios, even among investors actively looking to expand their holdings.

Grinblatt and Keloharju (2001) similarly found clear evidence of home bias in Finland. Their analysis indicated Finnish investors preferred companies geographically closer or culturally similar, especially those less sophisticated financially. These findings support behavioural finance theories on familiarity and perceived risk shaping investor decisions.

2.6 Connecting Theory with Empirical Analysis

The thesis uses straightforward statistical methods, including descriptive statistics, percentages, and cross tabulations, to examine survey responses. The choice of these methods allows clear exploration of behavioural patterns, making it possible to identify connections between investor characteristics and biases such as familiarity, loss aversion, and overconfidence.

Survey questions on trust in domestic versus foreign investments were explicitly tied to familiarity bias, while overconfidence was measured through self-reported investor knowledge and actual investment behaviours. This ensured a robust theoretical connection between the empirical data and the behavioural concepts central to this research.

2.7 Applying Theoretical Insights to Survey Design

The survey was carefully designed based on the theoretical concepts outlined in this chapter. Each behavioural bias, familiarity, loss aversion, overconfidence, and financial literacy, was translated into clear and measurable survey items, ensuring conceptually accurate data collection.

For instance, familiarity bias informed questions on preferences for domestic or foreign equities. Risk perception questions were developed from loss aversion theory, and financial literacy was addressed by asking respondents about their understanding of basic financial concepts and terminology. Demographic questions allowed further analysis, enabling comparisons across different investor profiles.

2.8 Summary of the Theoretical Framework

This theoretical framework integrates traditional investment theory with behavioural finance, providing a coherent basis for analysing why Finnish investors favour domestic securities. Behavioural finance offers particularly relevant insights, identifying how psychological factors like familiarity bias, loss aversion, overconfidence, and financial literacy shape investment behaviours contrary to theoretical ideals of diversification.

These theories structured the survey design, guiding how responses were interpreted and ensuring the data collection remained grounded in established financial literature. Despite considerable evidence supporting behavioural influences on investment decisions, existing literature primarily focuses on larger markets such as the United States. Finland, as a smaller market with advanced digital investment access, represents an interesting case study to examine these behavioural theories further in a distinct economic and cultural context.

3 Research Methods

3.1 Research Design and Methodology

This thesis applies a quantitative research approach to examine home bias among Finnish retail investors. The main goal was to identify the extent of home bias in portfolios and investigate behavioural and demographic factors underlying this phenomenon. The research specifically draws on behavioural finance concepts such as familiarity bias (Huberman, 1999), loss aversion (Kahneman & Tversky, 1979), and overconfidence (Odean, 1998).

I chose an online survey format because it allowed easy distribution through personal networks, but this also introduced trade-offs. The format was convenient, but I noticed some limitations, for example questions on confidence were sometimes interpreted differently by respondents, which affected the clarity of those results. Responses were analysed using descriptive statistics and comparative methods to identify meaningful behavioural patterns. This quantitative approach allowed for systematic evaluation of the survey data against theoretical concepts discussed in Chapter 2.

The table below provides an overview of how each investigative question (IQ) was addressed, linking theoretical frameworks, research methods, and specific survey items:

Table 2. Investigative questions, associated theory, and corresponding survey methods

Investigative Questions	**Methods**	**Relevant Survey Questions**
IQ 1. What is considered home bias?	Descriptive statistics	Q7, Q10, Q11
IQ 2. What are the consequences of home bias?	Thematic grouping of attitudes, Descriptive comparison	Q9, Q13, Q14, Q17, Q18
IQ 3. Who exhibits home bias, and to what degree?	Cross-tabulation, Group comparison	Q1-Q7
IQ 4. How do Finnish investors perceive domestic and foreign equity?	Group comparison, Descriptive analysis	Q15, Q16, Q20, Q21

This structured approach ensured the collection of clear, targeted data reflecting both theoretical insights and practical investment behaviour.

3.2 Population and Sample

The survey specifically targeted individual Finnish retail investors actively managing their own investments, primarily via digital platforms. Institutional investors or those investing solely through managed services were excluded from this research to maintain focus on direct personal decision making.

The survey received 30 responses, recruited via convenience sampling through personal networks and social media. Although the small sample limits generalizability, it still provides valuable insight into behavioural tendencies and serves as a starting point for deeper analyses. This research does not claim broad representativeness; rather, it provides initial empirical data on Finnish investor behaviour, highlighting areas for future exploration.

3.3 Data Collection

Data was collected using an online survey hosted on the Webropol platform. The survey was open for responses from 13.10.2024 to 15.11.2024. Participants were informed clearly of the research purpose, the confidentiality of their responses, and compliance with GDPR regulations.

The survey consisted of structured questions addressing demographic information, investment experience, and behavioural factors influencing portfolio decisions. Questions were explicitly linked to theoretical constructs discussed in Chapter 2, including familiarity bias, loss aversion, overconfidence, and financial literacy. Each item was designed to gather precise data relevant to the investigative questions.

Before fully launching the survey, a small pilot study was conducted to ensure clarity, coherence, and ease of completion. Based on feedback, minor adjustments improved the wording and overall flow. The final survey required approximately ten minutes to complete.

3.4 Reliability, Validity and Relevance

Reliability was supported by the consistent structure and clear wording of survey questions. Every respondent received identical questions in the same order, reducing the risk of misunderstanding or inconsistency. Conducting a pilot study prior to the main data collection further enhanced reliability by clarifying ambiguous phrasing or formatting issues.

Validity was ensured by directly grounding the survey in established theoretical frameworks, such as familiarity bias, loss aversion, and overconfidence. Each survey question aimed to specifically measure one or more aspects of these theoretical concepts, clearly tied to the investigative objectives.

However, the relatively small sample size does constrain the general applicability of findings. Additionally, recruitment through email and personal networks likely attracted investors already more experienced or confident, potentially skewing the findings. Consequently, results should be viewed as indicative rather than broadly representative of all Finnish investors.

Initial plans to perform correlation analysis were reconsidered due to sample size constraints. Instead, the analysis emphasized descriptive statistics and comparative methods to effectively explore relationships between demographics, behavioural biases, and home bias.

Despite these limitations, this study still offers useful insights into behavioural tendencies, providing foundational evidence to guide further research.

4 Results

4.1 Respondent Profile

This chapter presents findings based on the responses of 30 Finnish retail investors. The results address the investigative questions outlined earlier and connect directly to behavioural finance concepts such as familiarity bias, loss aversion, and overconfidence.

Respondents represented a balanced gender distribution: 53% identified as male and 47% as female. No other gender categories were selected.

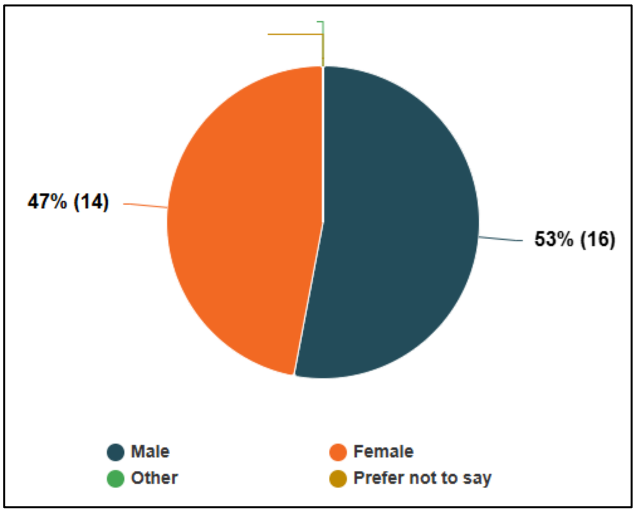

Figure 1. Gender distribution of respondents (Q1).

Age distribution was diverse. Respondents aged 35 to 44 and 65 to 74 each formed the largest groups (23% each). Investors aged 55 to 64 represented 20%, while those aged 45 to 54 made up 17%. Younger investors aged 25 to 34 accounted for 10%, and those aged 18 to 24 represented 7%.

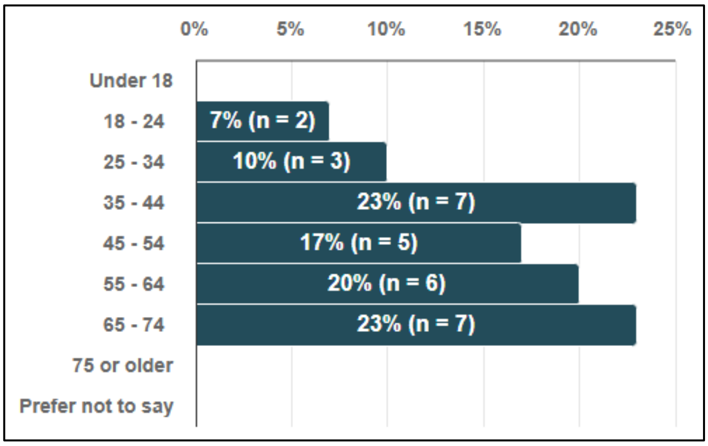

Figure 2. Age distribution of respondents (Q2).

Educational attainment among respondents was predominantly high. Approximately 40% held postgraduate degrees, and 33% had completed college or university-level education. High school graduates comprised 14%, while primary or technical education each accounted for 3%. An additional 7% declined to state their educational background.

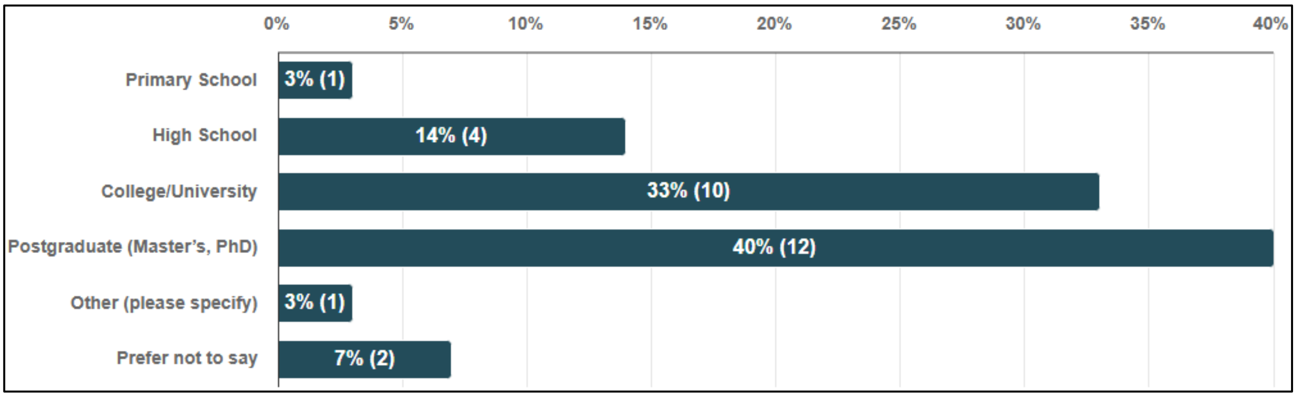

Figure 3. Education level of respondents (Q3).

Respondents' employment status varied, with public sector employees (36%) being the largest group. Private sector employees made up 27%, retirees 20%, self-employed respondents 10%, and students 7%.

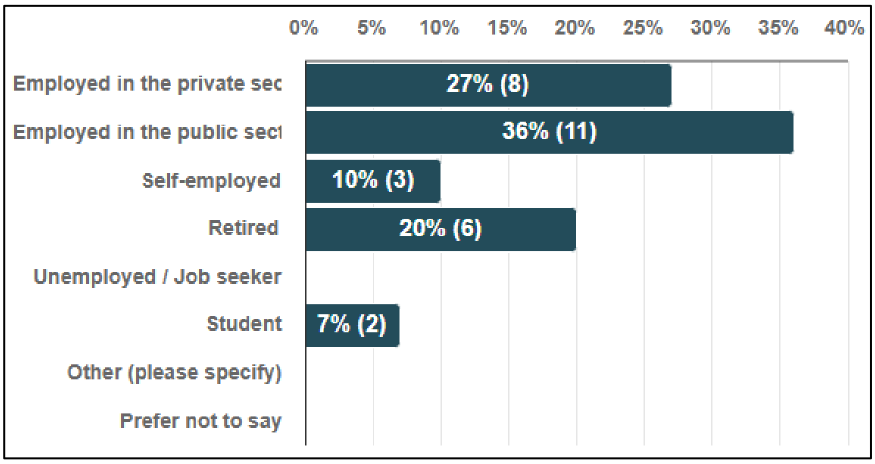

Figure 4. Employment status of respondents (Q4).

Investment experience showed substantial variation. Experienced investors (over 20 years) represented 27%, investors with 11 to 20 years made up 23%, and those with 6 to 10 years accounted for 17%. Newer investors (less than five years combined) totaled 33%.

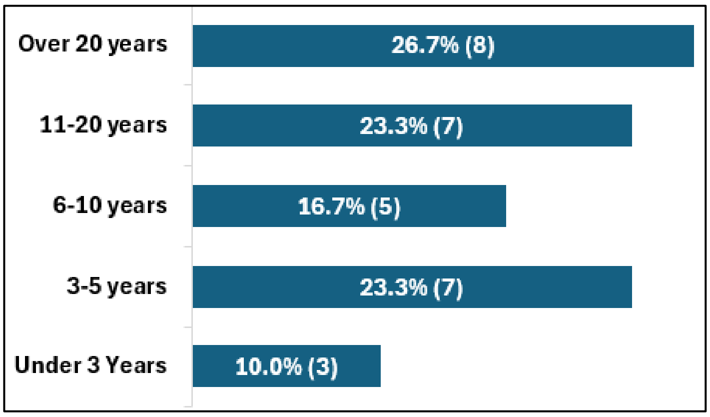

Figure 5. Investment experience levels grouped into five categories (Q5).

4.2 IQ1: What is Home Bias?

To measure home bias, respondents reported how much of their portfolios were invested in Finnish securities. Results revealed that 43% of respondents held more than half of their portfolio in Finnish securities, indicating a significant presence of home bias. The remaining 57% reported allocating 50% or less to domestic investments, suggesting better international diversification.

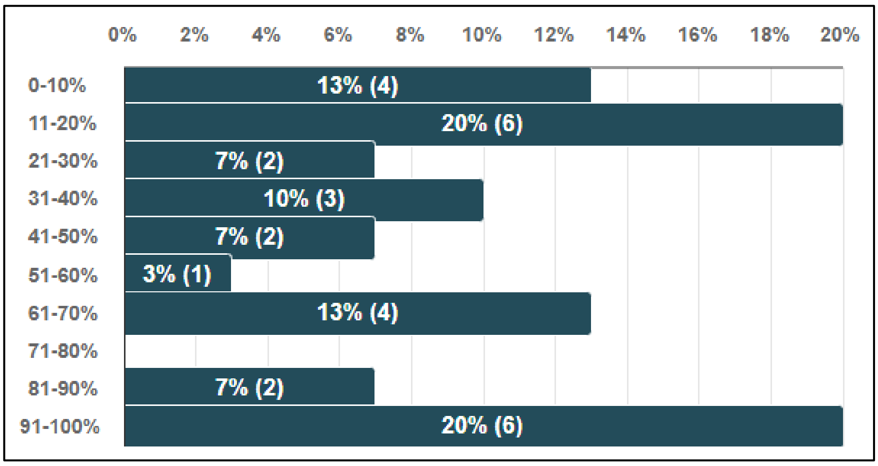

Figure 6. Portfolio allocation to Finnish securities (Q7).

Only 27% of respondents were familiar with the term "home bias," while 63% were not, and 10% were uncertain. Despite limited awareness, behavioural evidence suggests substantial home bias exists in practice.

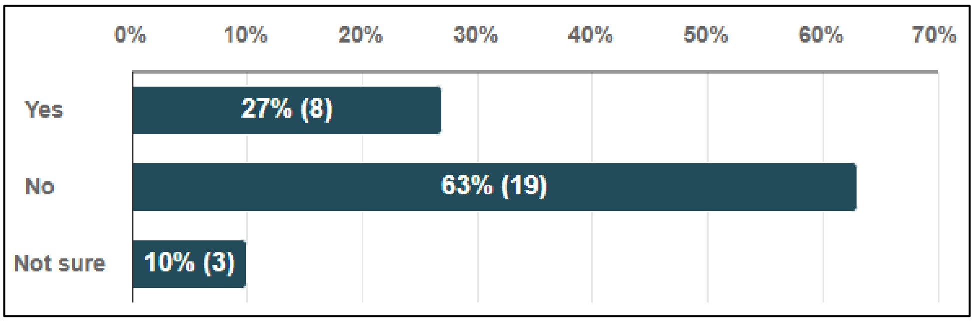

Figure 7. Awareness of the term home bias (Q10).

Respondents were also asked about regions outside Finland where they invested. North America (67%) and Europe excluding Nordic countries (57%) were most common, followed by other Nordic countries (50%), Asia (37%), South America (17%), Africa (13%), and Oceania (7%). This indicates that while some international diversification exists, investments typically cluster within familiar or economically developed regions.

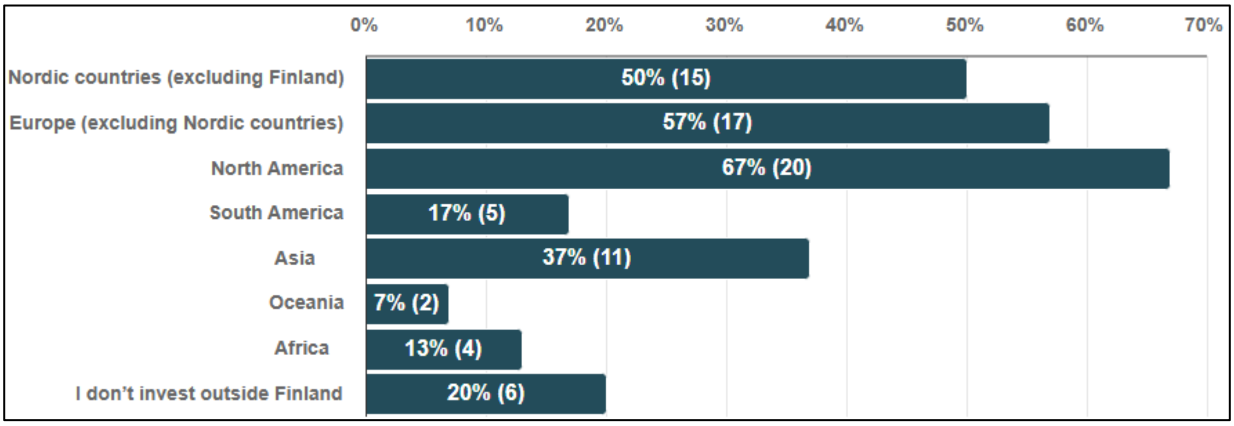

Figure 8. Geographic spread of respondents' foreign securities. The percentages represent the share of respondents who invested in each region (Q11).

4.3 IQ2: What Are the Consequences of Home Bias?

To examine consequences, respondents first assessed how risky they perceived Finnish investments compared to foreign investments. Half (50%) believed Finnish and foreign securities were equally risky. Another (47%) considered Finnish securities safer, and only one respondent (3%) believed foreign investments were safer.

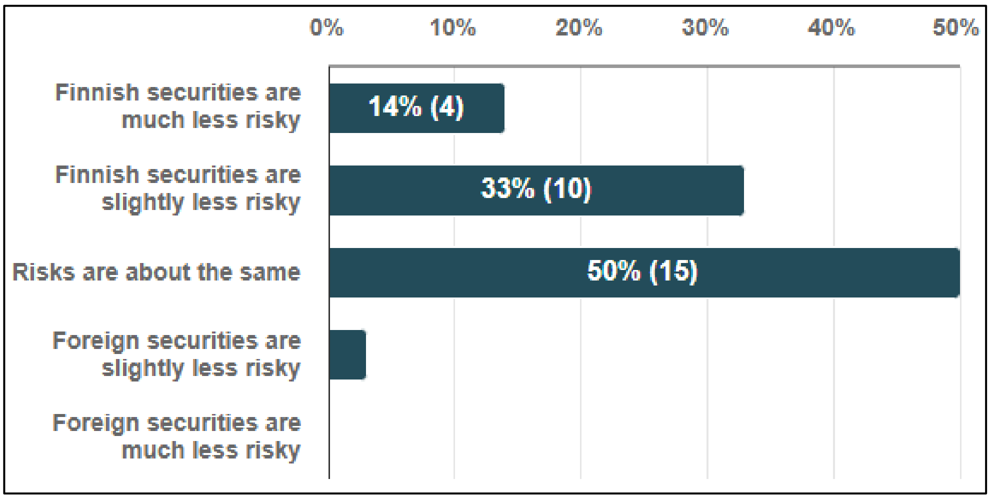

Figure 9. Perceived safety of Finnish investments compared to foreign ones (Q13).

Barriers to investing abroad primarily included insufficient knowledge about foreign markets (77%), political instability (50%), preference for Finnish investments (30%), limited access to reliable information (27%), currency risks (23%), and complex taxation rules (23%).

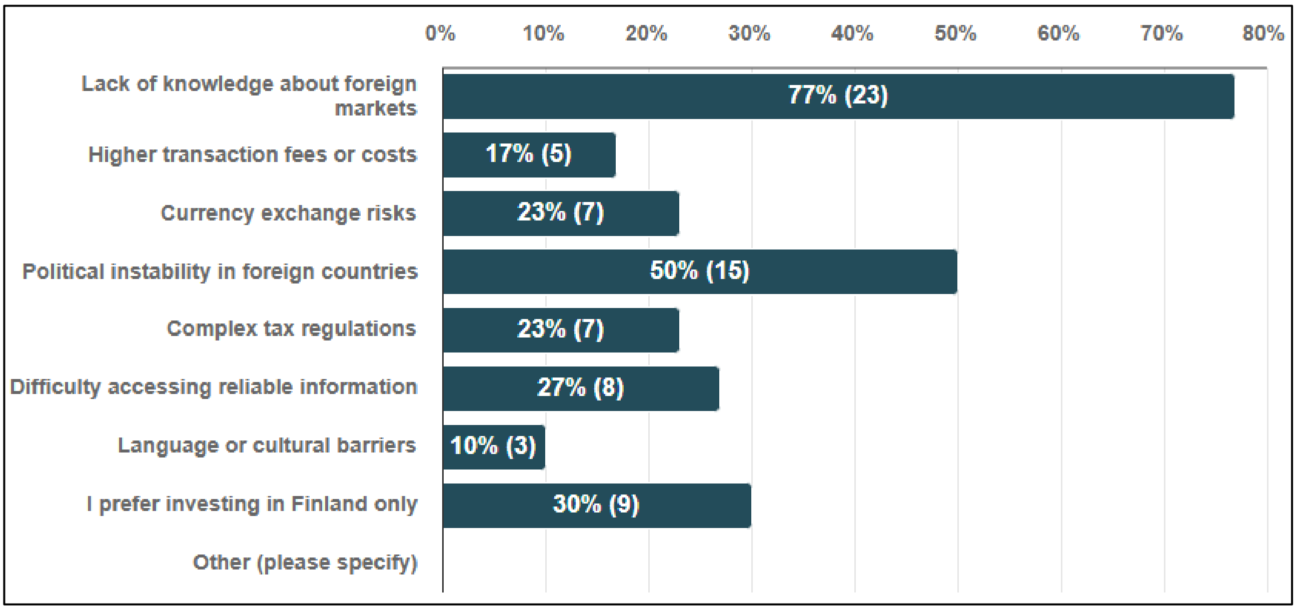

Figure 10. Challenges faced when considering foreign investments (Q14).

When asked specifically if international investing introduced unnecessary risk, the majority (60%) disagreed. Only 23% considered international investing unnecessarily risky, indicating respondents do not generally view foreign investments negatively.

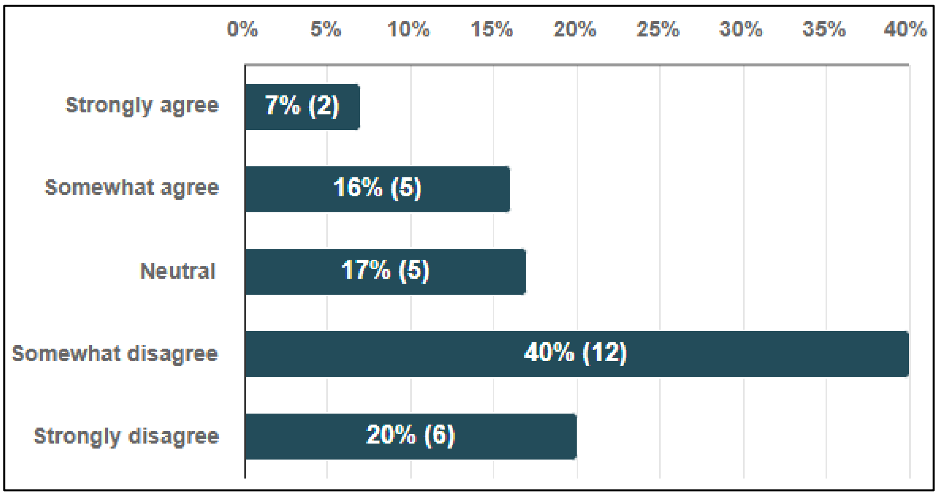

Figure 11. Perception of global investing as unnecessarily risky (Q17).

Reasons respondents gave for favouring Finnish securities included familiarity with domestic companies (72%), easier access to relevant information (55%), perceived lower risk in the Finnish market (31%), simpler taxation (24%), lower transaction costs (17%), and general trust in Finland's economy (10%).

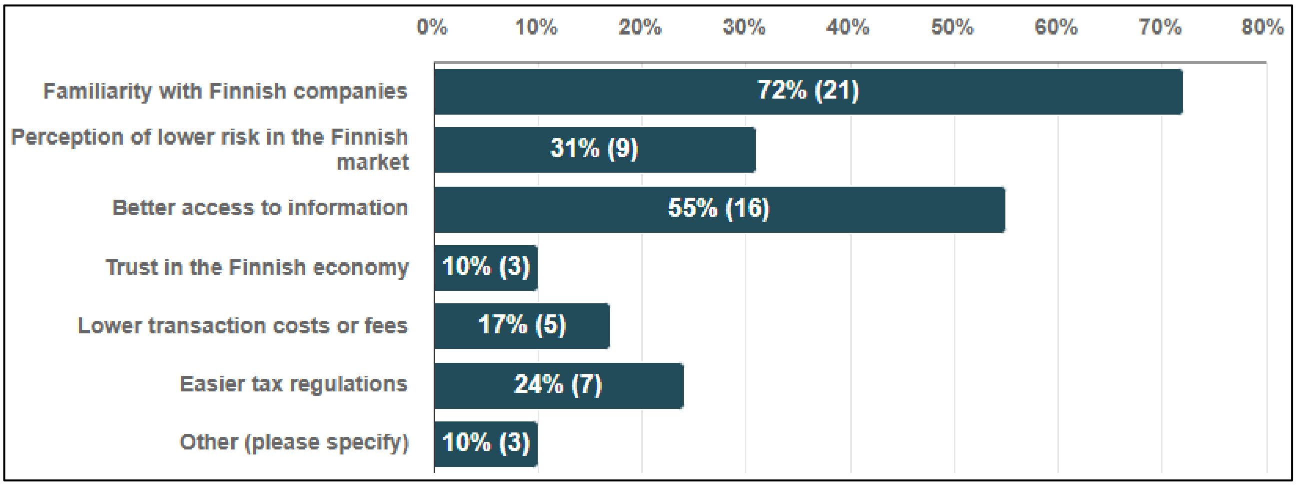

Figure 12. Reasons for preferring Finnish securities (Q9).

Investors rated the importance of various factors influencing foreign investment decisions. Economic growth potential was ranked most important (63%), followed by familiarity with markets (50%), political stability (40%), information availability (37%), and trust in regulatory frameworks (33%). Factors like currency exchange rate stability (23%) and historical market performance (20%) were deemed less critical.

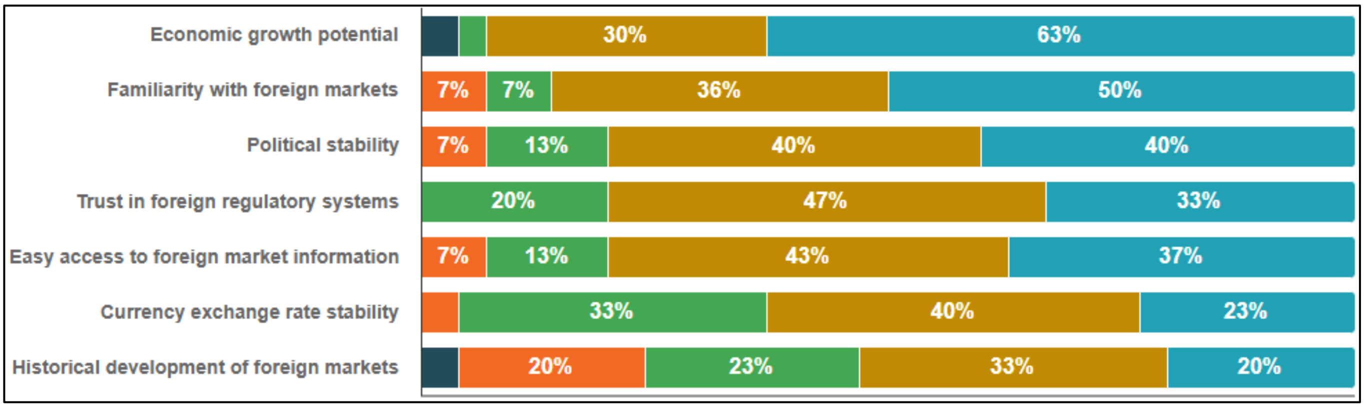

Figure 13. Importance of factors when evaluating foreign investments (Q18). Lowest score to the left, highest score to the right.

4.4 IQ3: Who Exhibits Home Bias?

Analysis revealed variations in home bias according to demographic and investment profiles.

By gender, female respondents exhibited greater home bias: 57% had a majority of their portfolio in Finnish securities compared to 31% of male respondents.

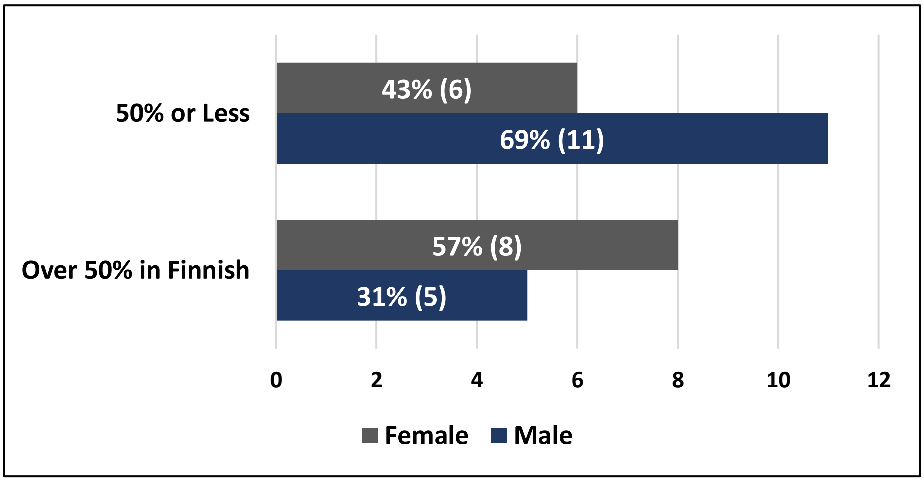

Figure 14. Share of portfolio in Finnish securities by gender (Q1 and Q7).

Age also correlated with home bias. Respondents aged 65 to 74 (71%) and 55 to 64 (67%) were the most home-biased groups. By contrast, younger investors showed lower domestic concentrations, with no respondents younger than 35 exceeding the 50% threshold.

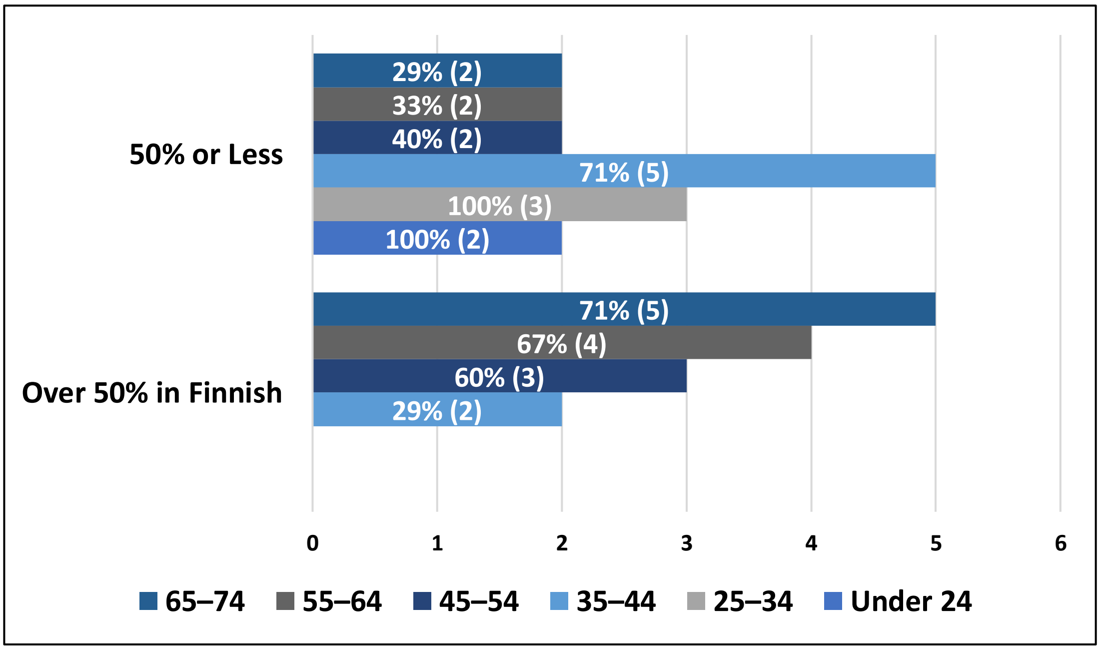

Figure 15. Share of portfolio in Finnish securities by age group (Q2 and Q7).

Educational attainment showed clear patterns. Investors with postgraduate degrees demonstrated lower home bias (33% above the 50% threshold), compared to those with only high school education (50% above the threshold).

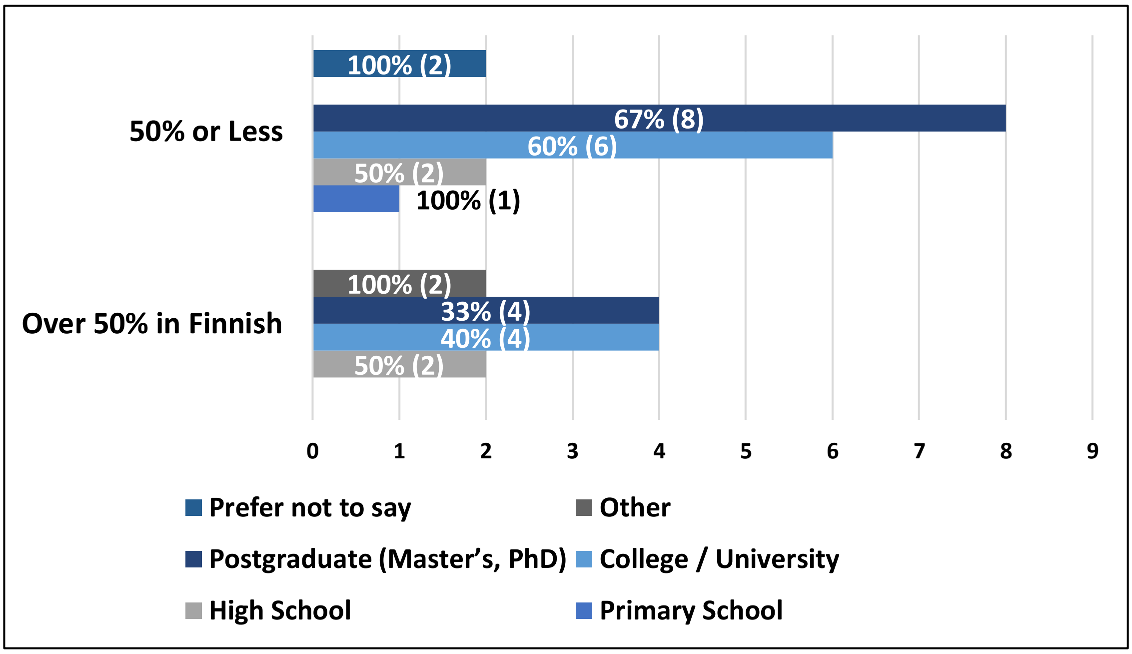

Figure 16. Share of portfolio in Finnish securities by education level (Q3 and Q7).

Employment status also showed distinct differences. Retired respondents exhibited strong home bias (83%), whereas students showed no respondents exceeding the 50% threshold. Home bias among private (37%) and public sector employees (27%) and self-employed individuals (33%) fell in between these extremes.

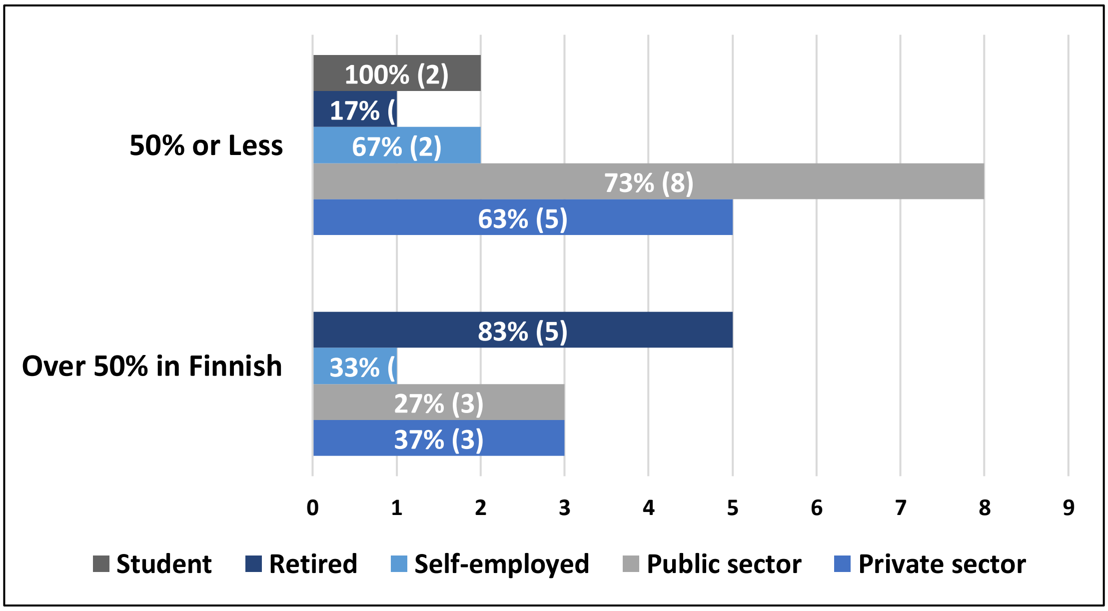

Figure 17. Share of portfolio in Finnish securities by employment status (Q4 and Q7).

Investment experience indicated notable variations. Investors with moderate experience (6 to 10 years) had the highest level of home bias (100%). In contrast, the most experienced group (over 20 years) showed a lower home bias (37%), and newer investors (less than five years) also displayed low domestic concentration (20%).

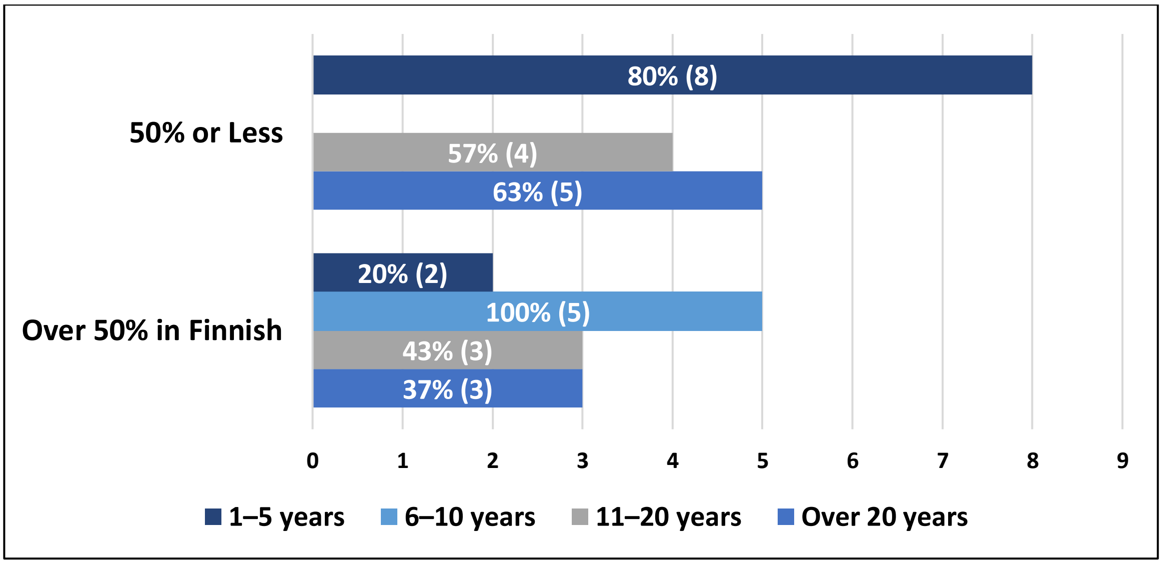

Figure 18. Share of portfolio in Finnish securities by investment experience (Q5 and Q7).

Investment frequency highlighted that quarterly investors showed higher home bias (67% over the 50% threshold), whereas respondents investing annually or less frequently demonstrated significantly lower home bias (20%).

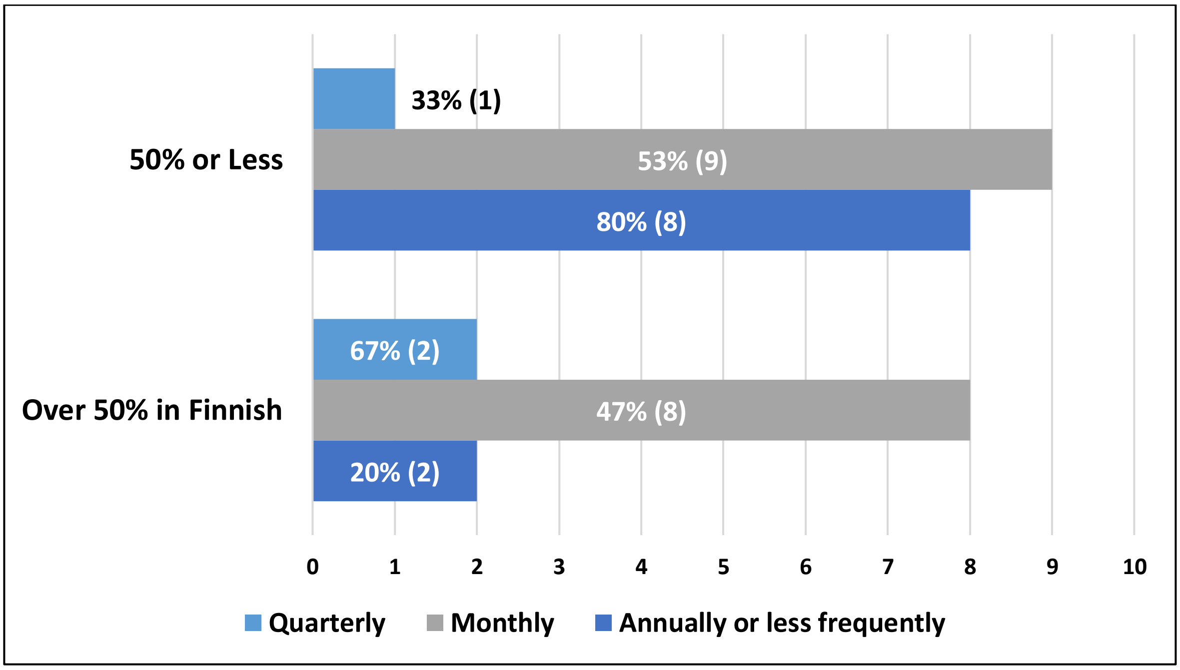

Figure 19. Share of portfolio in Finnish securities by investment frequency (Q6 and Q7).

These demographic patterns align with Grinblatt and Keloharju's (2001) findings, indicating home bias is often more pronounced among investors who are older, less educated, or moderately experienced, while younger, highly educated, or novice investors tend towards greater international diversification.

4.5 IQ4: How is Foreign Equity Perceived?

Respondents identified factors that would encourage increased international investment. Better access to reliable information (47%) and greater confidence in foreign markets (47%) were most frequently cited, along with lower transaction costs (43%), simplified taxation rules (33%), and better educational resources (30%). Few respondents prioritized improved currency exchange options.

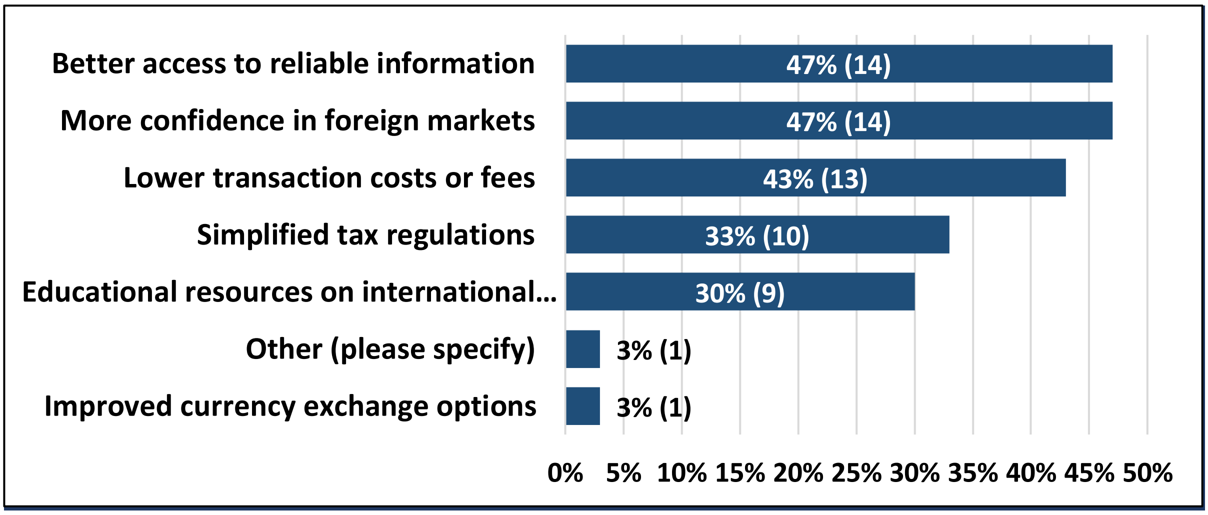

Figure 20. Factors that would encourage international investment (Q15).

When asked if foreign markets offered better diversification opportunities, 54% strongly agreed, and 20% somewhat agreed. Only 7% disagreed, indicating a clear recognition of diversification benefits.

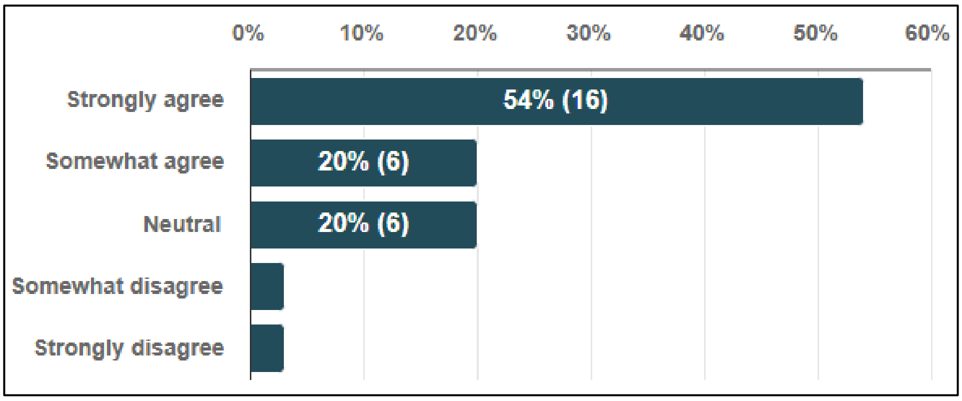

Figure 21. Perceived diversification benefit of foreign markets (Q16).

Figure 22 presents responses to whether respondents believe their portfolio would benefit from more international diversification. A clear majority (63%) answered yes, while (27%) were unsure. Only (10%) disagreed. This response closely aligns with the answers to Q21, reinforcing the idea that many investors see room for greater global exposure in their portfolios.

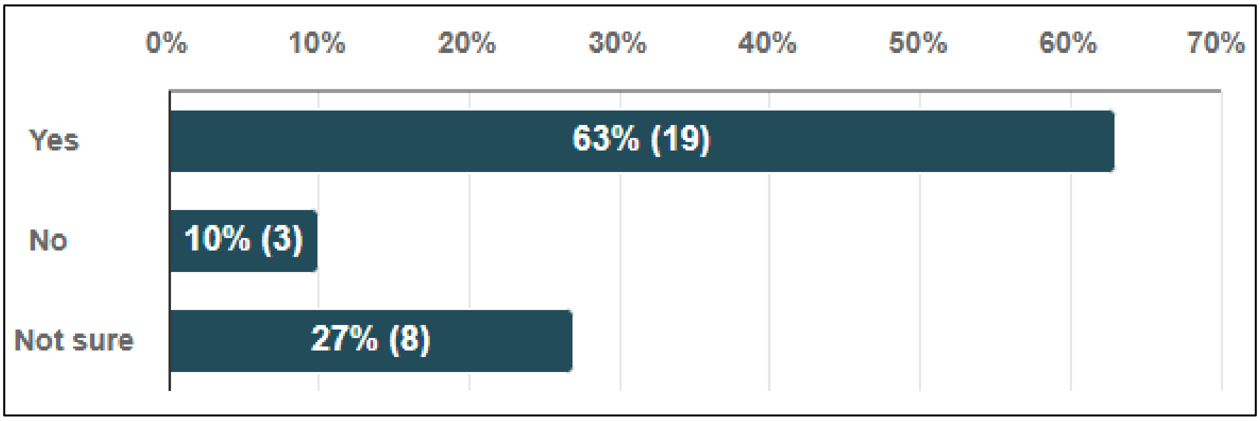

Figure 22. Perceived need for greater international diversification (Q20).

Most respondents (63%) explicitly acknowledged their portfolios would benefit from additional international diversification, whereas only 10% disagreed. Additionally, 67% expressed openness to diversifying internationally in the future, while 23% were unsure, and only 10% refused.

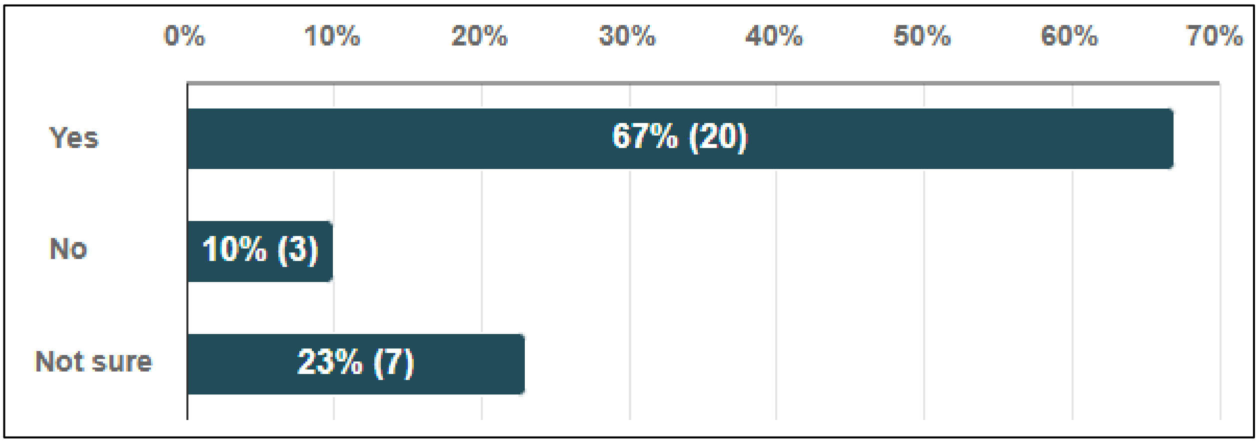

Figure 23. Willingness to diversify more internationally in the future (Q21).

4.6 Summary of Key Results

Results indicate home bias remains prevalent among Finnish retail investors, with 43% holding significant domestic concentrations. Familiarity with domestic markets, informational accessibility, and perceived lower risk were primary motivators for this preference.

Demographically, home bias was most evident among older respondents, retirees, and investors with less formal education. Younger, highly educated, or inexperienced investors were more internationally diversified.

Despite existing home bias, most respondents recognized clear advantages of international diversification and expressed willingness to diversify further if practical barriers such as information access, transaction costs, and market trustworthiness were effectively addressed.

These findings underline the strong influence of behavioural biases and demographic characteristics on investor choices and highlight the potential for targeted educational and practical interventions to reduce home bias among Finnish retail investors.

5 Discussion

5.1 Key Findings

The survey results clearly indicate home bias persists among Finnish retail investors. Many respondents exhibited significant domestic concentration, with 43% allocating more than half their portfolios to Finnish securities. Notably, only 27% were familiar with the term "home bias," suggesting investors are not necessarily making conscious choices to focus domestically. Instead, it seems that this investment pattern emerges more from habitual or subconscious comfort with local markets.

This aligns closely with existing behavioural finance research, particularly the concept of familiarity bias described by Huberman (1999). Finnish investors generally prefer domestic companies due to familiarity rather than explicit expectation of superior returns. Investors frequently identified the primary barriers to international diversification as practical rather than fundamental objections. Lack of knowledge, uncertainty about foreign markets, and informational difficulties emerged consistently as obstacles, highlighting the critical role of financial literacy (Lusardi & Mitchell, 2014).

A notable finding was the gap between the respondents' stated beliefs and their actual investment behaviour. Even those who agreed that global diversification is beneficial often kept most of their portfolios in Finnish equities. This contradiction surprised me, and made the "intention-behaviour gap" described by Barberis and Thaler (2003) feel far more tangible than I had expected when first reading about it. Even though most respondents agreed with the benefits of international diversification in theory, their portfolios told a different story. This mismatch was one of the more surprising findings, suggesting that beliefs and actions don't always align, even among experienced investors. Habitual investment patterns, limited financial literacy, and psychological barriers such as loss aversion (Kahneman & Tversky, 1979) appear influential in maintaining domestic bias.

Demographic analysis further clarified home bias patterns. Older respondents (particularly aged 55 to 74) exhibited higher home bias, potentially reflecting ingrained habits, less comfort with digital platforms, or traditional reliance on local financial media sources. Conversely, younger respondents showed significantly greater willingness to invest internationally, possibly indicating greater familiarity with digital tools and international sources of information.

These findings support previous studies on Finnish investor behaviour, notably Grinblatt and Keloharju's (2001) analysis indicating investors prefer geographically or culturally familiar companies, particularly those with less experience or financial knowledge.

5.2 Recommendations

While the benefits of international diversification are clear in theory, it remains uncertain whether most Finnish retail investors would change their portfolios, even if barriers were removed. Some may continue to prefer domestic equities out of habit, identity, or perceived control. While respondents generally understood the advantages of international diversification, a significant number maintained highly concentrated domestic portfolios. This indicates that understanding alone is insufficient to change ingrained behavioural patterns.

Financial literacy programs are clearly important, but they need to be more than just general advice. Partnering with Finnish platforms such as Nordnet could be an effective approach to create short videos aimed at older investors, focusing on how to evaluate foreign markets. Otherwise, these efforts risk preaching to the already converted. Such resources might cover practical topics like managing currency risks, navigating foreign taxation, and effectively utilizing digital investment platforms.

Financial service providers and digital investment platforms also have essential roles. Enhancing the usability of international investment platforms, clearly communicating transaction costs, simplifying taxation information, and providing tools to monitor foreign holdings could encourage investors to diversify. Targeted guidance might be particularly impactful among older investors and those with lower investment experience, who currently display the strongest home bias tendencies.

Additionally, raising awareness of behavioural biases themselves might reduce their impact. Clearly illustrating how familiarity bias, loss aversion, and overconfidence affect investment choices could prompt investors to reconsider habitual portfolio allocations. Recognizing these biases might encourage more rational evaluation of diversification options.

Ultimately, addressing home bias involves both informational and behavioural strategies. Investors need not only knowledge of diversification's benefits but also practical support and reassurance to confidently engage with international markets.

5.3 Reliability, Validity and Relevance

The study methodology employed consistent data collection practices, enhancing overall reliability. Respondents received identical surveys, ensuring uniformity. Conducting a pilot test also helped reduce ambiguity and misunderstanding, contributing further to reliability.

Validity was ensured by direct linkage of survey items to established behavioural finance theories outlined in Chapter 2. Each question was carefully designed to measure specific theoretical constructs, particularly familiarity bias, loss aversion, overconfidence, and financial literacy.

However, limitations related to sample size must be acknowledged. The small sample size, just 30 respondents, limits how far these findings can be applied to the wider Finnish investor population. That said, some patterns were strong enough to suggest deeper trends worth investigating in future studies. Still, I would be cautious about over-interpreting certain correlations, especially where the data was thin. Furthermore, the recruitment method (email and personal networks) potentially attracted respondents already comfortable with investing, skewing findings slightly towards more experienced or confident individuals.

Despite these limitations, results remain highly relevant. Patterns observed clearly align with theoretical expectations, reinforcing behavioural finance perspectives. Moreover, findings provide foundational data for further, more extensive studies exploring home bias among Finnish retail investors.

5.4 Further Research

Future research could expand upon this study's findings by employing larger and more representative samples. A broader sample would facilitate comparisons across age groups, educational levels, income categories, and varying investment experience, clarifying the generalizability of observed behavioural patterns.

Exploring the direct impact of financial literacy would also provide valuable insight. This study measured perceived confidence but not objective financial knowledge. Future studies incorporating direct tests or quizzes assessing financial literacy could clarify its specific role in reducing home bias and improving investor confidence in foreign markets.

Qualitative research methods such as interviews or focus groups could further deepen understanding of behavioural motivations. Such methods might uncover emotional factors or personal experiences influencing investors' choices, potentially explaining persistent domestic preferences despite theoretical diversification advantages.

Longitudinal studies examining changes in home bias over time would also yield valuable insights. Investigating investor responses to specific events, financial crises, regulatory changes, or shifts in market access would clarify whether home bias is static or responsive to external developments.

Finally, comparative studies involving investors from other Nordic countries with similar economic structures and investment opportunities (e.g., Sweden, Denmark) could contextualize the findings, establishing whether behavioural patterns observed among Finnish investors reflect broader regional tendencies or country-specific influences.

5.5 Reflection on Learning

At the beginning of this thesis, I assumed the research process would be mostly about finding literature and collecting data. I quickly realized that designing the survey was much harder than expected. For instance, I struggled to translate familiarity bias into a concrete question, as my first drafts were too vague, and during the pilot, some respondents clearly misunderstood what I meant. This forced me to rethink how theory connects to practice.

Designing the survey was particularly instructive. Converting abstract behavioural concepts such as familiarity bias and overconfidence into precise, measurable questions proved challenging. Even after a pilot test, improvements became apparent in hindsight, highlighting the complexity of translating theory into effective empirical research.

Analysing survey results revealed my own assumptions impacting interpretations. For example, while expecting younger investors to show greater diversification, I learned to remain cautious in drawing conclusions and focus strictly on empirical evidence. This reinforced the importance of maintaining objectivity and critically examining my own biases.

Additionally, balancing theoretical clarity and practical application posed challenges. Although behavioural finance theory initially appeared straightforward, interpreting real-world data demonstrated its inherent complexity. Investors' actual behaviours often deviated significantly from theoretical predictions, highlighting the importance of flexible, nuanced analysis.

Overall, completing this thesis enhanced my critical thinking, objectivity, and practical research skills. I learned the necessity of thoroughness, clear theoretical foundations, and careful data interpretation. These experiences have improved my ability to independently manage substantial research projects and provided foundational skills beneficial to my future academic and professional activities.

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Appendices

Appendix A.

Survey Questionnaire

Introduction

Hello, and thank you for participating in this survey!

I am Jaakko Jäälinoja, an International Business student majoring in Finance & Accounting at Haaga-Helia University of Applied Sciences, and I am currently working on my thesis. This survey is a crucial part of my research, which focuses on understanding the investment preferences of Finnish investors, particularly the role of home bias and the factors influencing global diversification.

Purpose:
Your participation in this survey will provide valuable insights into why Finnish investors may prefer domestic investments over foreign ones and how they approach global diversification in their portfolios.

Your Participation:
As a respondent, you'll gain an opportunity to reflect on your own investment strategies and consider new ways to improve your portfolio's diversification!

The survey will take about 10 minutes to complete. Your participation is highly appreciated and will contribute directly to my thesis research. Please answer all questions as honestly and accurately as possible.

Data Privacy & GDPR Compliance:
This survey is conducted in full compliance with the General Data Protection Regulation (GDPR). All responses are anonymous and will be handled with complete confidentiality. The data collected will only be used for academic research purposes and will not be shared with third parties.

Dissemination of Results:
The results of this survey will be used in my thesis, which will be publicly available in the Theseus online library after completion. Theseus is the open repository for theses and publications of Finnish universities of applied sciences, ensuring that the findings will be accessible to a wider audience.

Contact Information:
If you have any questions about the survey or my research, feel free to contact me. Email: jaakko.jaalinoja@myy.haaga-helia.fi

Instructions:
Please proceed through the survey by selecting the answers that best reflect your experiences and preferences. Some questions may allow multiple answers, and for any open-ended questions, feel free to provide as much detail as you wish.

Thank you for your time and participation! The survey will take around 10 minutes to complete. Let’s get started!

Survey Questions:

1. Gender
   - Male
   - Female
   - Other
   - Prefer not to say
2. Age
   - Under 18
   - 18–24
   - 25–34
   - 35–44
   - 45–54
   - 55–64
   - 65–74
   - 75 or older
   - Prefer not to say
3. What is your highest level of completed education?
   - Primary School
   - High School
   - College/University
   - Postgraduate (Master’s, PhD)
   - Other (please specify)
   - Prefer not to say
4. What is your current employment status?
   - Employed in the private sector

- Employed in the public sector
- Self-employed
- Retired
- Unemployed / Job seeker
- Student
- Other (please specify)
- Prefer not to say

5. How many years have you been investing in financial instruments? *
   (Open-ended)
6. How frequently do you invest in financial markets? *
   - Weekly
   - Monthly
   - Quarterly
   - Annually or less frequently
7. What percentage of your investment portfolio is currently allocated to Finnish securities? *
   - 0–10%
   - 11–20%
   - 21–30%
   - 31–40%
   - 41–50%
   - 51–60%
   - 61–70%
   - 71–80%
   - 81–90%
   - 91–100%
8. Which regions do you invest in outside of Finland? (Select all that apply)
   - Nordic countries (excluding Finland)
   - Europe (excluding Nordic countries)
   - North America
   - South America
   - Asia
   - Oceania
   - Africa
   - I don’t invest outside Finland
9. What are the main reasons you prefer investing in Finnish securities? (Select up to 3)
   - Familiarity with Finnish companies

- Perception of lower risk in the Finnish market
- Better access to information
- Trust in the Finnish economy
- Lower transaction costs or fees
- Easier tax regulations
- Other (please specify)

10. Are you familiar with the term "home bias" in investing? *
    - Yes
    - No
    - Not sure
11. Do you believe that you exhibit home bias in your investment decisions? *
    - Yes
    - No
12. If yes, what do you believe are the main reasons for this bias? (Select up to 3)
    - Familiarity with local markets
    - Perception of foreign markets as more risky
    - Easier access to reliable information about Finnish companies
    - Language and cultural barriers
    - Lack of trust in foreign companies or economies
    - Complex foreign taxation systems
    - Other (please specify)
13. How do you perceive the risk of investing in Finnish securities compared to foreign securities? *
    - Finnish securities are much less risky
    - Finnish securities are slightly less risky
    - Risks are about the same
    - Foreign securities are slightly less risky
    - Foreign securities are much less risky
14. What are the main challenges you face when considering foreign investments? (Select up to 3)
    - Lack of knowledge about foreign markets
    - Higher transaction fees or costs
    - Currency exchange risks
    - Political instability in foreign countries
    - Complex tax regulations
    - Difficulty accessing reliable information

   - Language or cultural barriers
   - I prefer investing in Finland only
   - Other (please specify)
15. What factors would encourage you to invest more in international securities? (Select up to 3)
   - Lower transaction costs or fees
   - Better access to reliable information on foreign markets
   - Simplified tax regulations
   - Improved currency exchange options
   - More confidence in foreign economies and markets
   - Educational resources on international diversification
   - Other (please specify)
16. Do you believe that investing in foreign markets provides better diversification benefits than focusing solely on Finnish investments? *
   - Yes
   - No
   - Not sure
17. To what extent do you agree with the following statement: "Investing globally exposes my portfolio to unnecessary risks"? *
   - Strongly agree
   - Agree
   - Neutral
   - Disagree
   - Strongly disagree
18. In your opinion, how important are the following factors when considering foreign investments? (Rate each from 1 = Not important to 5 = Very important)
   - Political stability
   - Economic growth potential
   - Currency exchange rate stability
   - Trust in foreign regulatory systems
   - Familiarity with foreign markets
   - Historical development of foreign markets
   - Easy access to foreign market information
19. Where do you primarily obtain information for making investment decisions? (Select all that apply)
   - Financial news websites

- Social media and forums
- Friends or family
- Financial advisors
- Company reports
- Personal research
- Market analysis reports
- Other (please specify)

20. Do you believe your portfolio would benefit from more international diversification? *
    - Yes
    - No
    - Not sure
21. Would you consider diversifying more into international investments in the future? *
    - Yes
    - No
    - Not sure
22. Do you have any additional thoughts or comments on why you prefer domestic (Finnish) investments over foreign investments, or what might encourage you to diversify more internationally?
    (Open-ended)

Confirmation after finishing the survey:

Thank you for participating in this survey! Your input is invaluable to understanding how Finnish investors approach portfolio diversification and home bias.