Investors exposed to US military presence in Germany show...

- lower engagement in foreign (especially US) stocks
- less diversified portfolios, both in stocks as well as (mutual) funds

Estimation & Results

\[ y_{ijt} = \alpha + \beta \text{Base}_{it} + \delta \text{Zone}_{i} + \gamma \text{Investor}_{it} + \theta \text{Region}_{jt} + \text{Year}_{t} + \epsilon_{it} \]

**Presence of US forces in Germany (post cold war)**

**Identification or why military bases?**

- **Locations of bases are chosen based on strategic and tactical considerations by bureaucrats and not by economic considerations**
- **Selection of deployed personnel is done by superiors based on unit and function not by deployed persons themselves**
- **Limited need of contact or assimilation to host country culture and contact to individuals due to policy (at times even forbidden or at least unwanted) and short duration of tours**
- **Provision and establishment of institutions from home country leading to limited exchange and ‘caricatured Americaness’ or ‘little Americas’ (Cohen 1977; Sigal 1960)**
- **Germany and the USA do not share a (direct) common border eliminates potential cross-border influence**
- **However, selection of Germans to living close to a base cannot be controlled but unlikely due to locally attached nature of Germans (Schneider et al. 2019)**

**DATA**

- **Bank/brokerage data (direct-to-customer)**
  - Sample of ~250k individual customers of large German direct-to-customer retail bank
  - Full set of security transactions/holdings for 15 years (2002–17) for ~140k active investors (brokerage)
  - Customers’ demographics include age, income indicator, AuM/wealth, zip code, occupation, etc.

- **US military bases in Germany**
  - Manually collected locations of US military bases in Germany reported by the Department of Defense
  - Base characteristics include size, buildings (number/size), and different personnel counts

- **Regional data (controls on state, county, and district levels)**
  - Economic data, e.g., GDP, GDP financial share, employment, home ownership, empty flats
  - Demographics e.g., education level, population (density), shares of males, foreigners, and expellees

**Robustness**

- **Alternative base exposure measure** with similar results increasing in base exposure (rank-based exposure, IHS of total/military personnel, PCA first component from base characteristics, and variations of distance)
- **Sample restrictions** (based on investor characteristics) and exclusion of most commonly hold stocks or most commonly hold abroad stocks with similar results
- **Simple geographical controls** (Longitude, latitude, and average altitude of zip codes)

**Potential alternative explanations**

- **Social interactions/peer effects** between Germans and deployed personnel (Hong et al., 2004 Duflo and Saez, 2002; Kaust and Knüpfel, 2011)
  - Literature on expatriates finds only low-levels of interaction in „planted“ situations (Cohen 1977)
  - Only limited need for assimilation and contact to local population stemming from short tours and availability of US institutions at base location and undesired fraternization even in allied countries
  - Cultural impact of US bases described for Asia shown to be based on pure vicinity (Ogura, 2003)
  - Peer effect expected to vanish after base closure; be stronger for still active bases (§ results above)
- **Local bias** across (virtual) borders due to bases (Baltzer et al., 2013) should vanish after base closure
- **Informational advantage**, e.g., via better command of English language (Grinblatt & Keloharju, 2001)
  - Should also apply to UK stocks, but these do not show any sizeable or significant effect
  - Same is true for a better familiarity to case law based legal or market based financial system
  - Better access to US specific (informal) information/news the effect should vanish after base closure