Internet Appendix

This is the Internet Appendix for "Trust and Local Bias." This supplementary appendix is not meant for publication in print. It can be made available on a Journal website and the authors' websites upon publication.

It reports the complete results of additional tests described in the main text, but not included in the main table for brevity. Section 1 reports our main results using an alternative non-interpolated TRUST_INDEX. This robustness tests assures that our results are not due the interpolation of the Trust Index. Section 2 reports results using the characteristics based version of the TRUST_INDEX. Section 3 re-estimates our key findings using a biennial state level trust measure created from the General Society Survey. Section 4 shows the effect of trust on local ownership before and after Regulation Fair Disclosure (Reg FD). Section 5 shows are results are unchanged with the inclusion of controls for the information environment while Section 6 shows similar results after controlling for risk aversion.

1. Non–Interpolated Trust Index

Though out our study, we use a measure of trust derived from the World Values Survey (WVS). The TRUST_INDEX is defined as the percentage of Survey Respondents answering "Most people can be trusted" to the survey question "*Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?*" from the World Values Survey.

One concern with the World Values Survey is that it is only conducted once every 5 to 6 years. Therefore, for the years without a survey we follow standard practice in the existing literature by extrapolating the values. However, this may raise concerns given the length of the time between each survey. In this section, we re-estimate our analysis using a non-interpolated measure of trust.

We construct a non-interpolated measure of trust using the World Values Survey as follows. For years 1996-1998, we use the TRUST_INDEX calculated from the 1996 survey. For years 1999-2005, we use the 1999 survey. And for years 2006 and 2007, we use the 2006 survey. We re-estimate both the multivariate local ownership tests (Table V) and portfolio return tests (Table VI) sorted by local ownership in low and high trust regions.

Panel A of Table A1 presents regressions results of trust on local ownership. Column 1 shows that the coefficient estimate on the *non-interpolated* Trust Index remains negative and statistically significant (–0.098, t=–4.97), consistent with our main findings in Table V. It remains negative and statistically significant after controlling for stock return variables in Column 2 and with the inclusion of industry fixed effects in Column 3. Our findings remain unchanged with the inclusion of firm fixed effects in Column 4.

Panel B of Table A1 reports portfolio return differences across low and high trust regions using the non-interpolated measure. We first split stocks into high or low trust regions, then create five portfolios based on the previous quarter-end institutional local bias within each region. A geographic region is defined as high (low) trust if the TRUST_INDEX is above (below) the sample median at the beginning of each calendar year.

The long-short portfolio (long Portfolio 5 and short Portfolio 1) generates an average monthly return of 49 bps (t=2.78). Risk adjusted returns show similar patterns across various factor models: the CAPM market model (50 bps, t=2.89), the Fama–French 3-factor model (53 bps, t=3.13), and the Carhart (1997) 4-factor model (49 bps, t=2.68). These estimates are comparable to the results in the main text. For example, in Table VI, Panel B, the Carhart (1997) 4-factor model generates a long-short return of 53 bps. Again, we observe that the high trust region based portfolios shows no abnormal return patterns. The raw return difference between Portfolio 5 and Portfolio 1 is 10 bps per month and statistically insignificant (t=0.70).

In sum, these tests show that interpolating the Trust Index makes negligible difference to the key findings in this study.

2. Measuring Trust: Respondent-Characteristics-Based Trust Index

Table A2 presents the results using the respondent-characteristic based TRUST_INDEX. We present the summary statistics by characteristics in Panel A and multivariate local ownership results in Panel B. Panel A reports, for each demographic group, the fraction of respondents who answer, "Most people can be trusted" to the trust survey question. Female and male respondents have similar levels of trust (female=38%, male=37.2%). White/Caucasian White participants are more trusting than are non-White/Caucasian White respondents (41.2% vs. 25.1%). Trust increases with age, education level, and financial health. The TRUST_INDEX is the highest among oldest respondents (43.4% for respondent age above 50), respondents with high education (46.6%), and

households with good financial health (45.5%). The fraction among chief wage earners is slightly higher than that of nonchief wage earners (Chief=38.3%, Nonchief=37%). These patterns are broadly consistent with the results in Alesina and La Ferrara (2002) and the experimental findings of Glaeser, Laibson, Scheinkman, and Soutter (2000), further confirming the quality of our trust measure. Across all specifications, the alternative TRUST_INDEX constructed from demographic group respondents are the main driver behind the trust/local ownership relation. Column 1 shows that the effect of the TRUST_INDEX on local ownership is due to the trust attitudes of Male respondents. Column 2 shows that the effect of the TRUST_INDEX on local ownership is driven by the trust level of White/Caucasian White respondents. The link between trust and local ownership is only significant amongst respondents 30+ year in age in column 3. Columns 4 though 6 shows that the previous results are driven by trust levels of higher educated respondents, respondents in good financial health, and chief wage earners in the household. Each of the six columns shows that the effect of social trust on local ownership exists in the demographic group that is more likely to be a stock market participant. We find no relation for most of the other demographic groups that is less likely to be stock market participants.

3.   Measuring Trust: State–Level Trust Index from General Society Survey

There are two concerns with our primary TRUST_INDEX measure created from the World Value Survey. First, the survey is only conducted once every 5-6 years, leaving long time gaps. Second, the WVS only provides location information at the region–level. We might expect variation in the TRUST_INDEX within each region, raising concerns about the appropriateness of the WVS measure.

   To address both these concerns, we construct a TRUST_INDEX from a different survey: General Society Survey (GSS). This survey is conducted only in the United States and is conducted approximately every two years. The survey is a projected funded by the Sociology Program of the National Science Foundation. Each survey wave asks a similar trust question. Therefore, we use the same methodology as with the World Values Survey by calculating the GSS TRUST_INDEX as the percentage of respondents answering "Most people can be trusted" to the survey question [TRUST]: "*Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people?*" One potential weakness of using a state–level measure is that for certain waves, certain state have very few respondents. While the state–level measure is

more granular than the regional-level WVS measure, it is potentially noisier. Therefore, we require at least 20 respondents in each wave to calculate the Trust measure, and interpolate between waves.

Panel A of Table A3 presents regressions results of trust on local ownership using the same the multivariate regressions specifications as in Table V. Column 1 shows that the coefficient estimate on the GSS TRUST_INDEX remains negative and statistically significant, consistent with our main findings in Table V. It remains negative and statistically significant after controlling for stock return variables in Column 2 and with the inclusion of industry fixed effects in Column 3. Our findings remain unchanged with the inclusion of firm fixed effects in Column 4.

Next, we focus on portfolio return differences across low and high trust regions. We first split stocks into high or low trust regions, then create five portfolios based on the previous quarter-end institutional local ownership within each region. Our results are both quantitatively and qualitatively similar sorting independently on high or low trust regions and local bias. A geographic region is defined as high (low) trust if the Trust Index is above (below) the sample median at the beginning of each calendar year.

Panel B1 of Table A3 shows striking return patterns for low trust region based portfolios. The long-short portfolio (long Portfolio 5 and short Portfolio 1) generates an average monthly return of 42 bps (t=2.60). Risk adjusted returns show similar patterns across various factor models: the CAPM market model (48 bps, t=3.06), the Fama–French 3-factor model (48 bps, t=3.07), and the Carhart (1997) 4-factor model (49 bps, t=2.99).

In stark contrast, Panel B2 of Table A3 does not show abnormal return patterns for high trust region based portfolios. The raw return difference between Portfolio 5 and Portfolio 1 is 18 bps per month and statistically insignificant (t=1.11). The results for risk-adjusted returns remain small and insignificant across different factor models.

This set of tests based on the GSS TRUST_INDEX addresses at least three potential concerns. First, it shows that our main findings are unchanged using a completely different survey. This provides a check on our results. Second, the GSS Trust Index addresses concerns that the region definition of the WVS TRUST_INDEX measure is too crude and shows that our results continue to hold at the state–level. Third, the GSS TRUST_INDEX addresses concerns of long time gaps in measurement since it is conducted approximately every 2 years.

4.   Privileged Access? Evidence from Regulation Fair Disclosure

The performance of investors in low trust regions raises concerns of privileged access, perhaps in unobservable quid–per–quo arrangements. Certainly the exclusivity of golf courses may provide a convenient venue for such agreements to occur. It is may be useful to clarify the mechanism behind their information advantage.

To test for privileged access, we assess the impact of the implementation of Regulation Fair Disclosure (Reg FD) on our results. Reg FD was adopted by the SEC on August 2000 to curb the selective disclosure of material nonpublic information by firms to analysts and institutional investors. Reg FD is intended to prohibit potential quid per quo arrangements that may be the source of privileged information.

First, we analyze the univariate change in local ownership in the pre- and post- Reg FD periods (i.e., before and after year 2001). Panel A of Table A4 shows that the overall level of local ownership falls after the implementation of Reg FD. This occurs in both high and low trust regions, but the reduction in local ownership appears to be greater in high trust regions. Next, we confirm that the patterns are similar in a multivariate setting. Panel B presents the regression results. We use the panel regression specification in Table V, and include a post–Reg FD dummy that is equal to 1 if the year is after 2001 and 0 (pre–Reg FD) otherwise. The interaction term, post-Reg FD dummy * TRUST_INDEX, is negative and statistically significant across our four models. This confirms that Reg FD is associated with a greater decrease in local ownership in high trust regions. Panel C presents the main tests on long-short portfolio returns sorted by local ownership during the sample periods both before and after Reg FD. We report the results for low trust regions in Panel C1 and high trust regions in Panel C2. During both sample periods, the return patterns are consistently stronger in low trust regions. Institutional investors located in low trust regions continue to benefit from their information advantage after Reg FD. Based on the risk adjusted return from the Carhart 4-factor model, a long–short portfolio of stocks sorted on local ownership exhibit significant outperformance in both the pre–Reg FD period and post–Reg FD period in low trust regions.

This result suggests that the information advantage of institutional investors in low trust regions is not driven by selective disclosure of material information. Instead, institutional investors in low trust regions continue to exhibit better performance in their local portfolios, suggesting that the source of their information advantage is unaffected by Reg FD.

5.   Omitted Variable: Information Environment

To address the concern that stocks in high trust regions have more distant investors because of lower information collection costs, we add the following controls for the firm's information environment: 1 the number of analysts covering the firm, 2 the probability of informed trading (PIN) (e.g., Easley, Kiefer, and O'Hara, 1997; Brown and Hillegeist, 2007)[1], and 3 the return-volume coefficient (C2) (Llorente et al., 2002). We re-estimate the trust/local ownership regressions follow the same baseline specifications with these controls.

Table A5 reports the results. Across all specifications, we continue to find a significantly negative effect of trust on local ownership. In the first column, the coefficient estimates on the information environment measures imply that greater transparency attracts more distant investors (and thus, lowers local ownership). Consistent with our conjecture, greater analyst coverage leaders to lower local ownership, while higher PIN and C2 results in higher local ownership.

6.   Omitted Variable: Risk Aversion

One concern is whether trust is simply a measure of risk aversion. Guiso, Sapenza, and Zingales (2008) provide a thorough analysis of this issue. Using both a theoretical model and empirical proxy, they find that trust is a distinct concept from risk aversion.

While risk and ambiguity aversion are related to stock market participation, we are unaware of any theory that suggests that risk or ambiguity aversion relate to local bias. Nevertheless, we provide additional evidence to rule–out this concern. Ideally, we would use survey questions to directly control for risk and ambiguity aversion, however neither the World Values Survey or General Society Survey conduct such questions. In the absence of these questions, we use the local Catholic–Protestant ratio to proxy for the local resident's risk–taking attitudes (e.g., Kumar, Page, and Spalt, 2011; Shu, Sulaeman, and Yeung, 2012).[2]

Table A6 presents the results of panel regression of local ownership on our main Trust Index, controlling for local religiosity and the Catholic-Protestant (C/P) ratio at the state–level. The coefficient estimates on the Trust Index remain largely unchanged. Column 1 shows that the C/P ratio is positively related to local ownership suggesting that risk–seeking behavior relates to greater local ownership. However, this relation becomes statistically weaker after controlling for

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[1] We thank Stephen Brown for making the PIN measure publicly available.
[2] We thank Johan Sulaeman for sharing data on the C/P ratio and local religiosity.

additional stock characteristics and industry effect, and statistically insignificant with the inclusion of firm fixed effects in column 4.

In sum, this test supports the idea that the trust measure is different than risk aversion, and that our results are no due to local risk attitudes.

References

Alesina, A., and E. La Ferrara. "Who Trusts Others?" *Journal of Public Economics*, 85 (2002), 207–234.

Glaeser, E.; Laibson, D.; Scheinkman, J.; and C.L. Soutter. "Measuring Trust." *Quarterly Journal of Economics*, 115 (2000), 811–846.

Table A1: Non-Interpolated Trust Measure

This table reports our key results using the non-interpolated trust measure based on the World Values Survey. All analyses are performed at the stock level. An institutional investor is classified as a local investor if it is located in the same state as the headquarter state of the stock. For a given stock, local ownership is calculated as the fraction of holdings held by local investors minus the total market equity asset value of all investors located in the same state divided by the total market equity asset value of the entire institutional investor universe.

Panel A: Multivariate Analysis

Panel A reports results on the relation between trust and local ownership using the non-interpolated trust measure. The control variables for firm characteristics include firm size, market-to-book, book leverage, profitability, cash holding, institutional ownership, past stock return, Amihud illiquidity, and stock return volatility. Year, state, and industry (2-digit SIC) fixed effects are included in different specifications from columns 1 to 3. Column 4 presents the specification with firm fixed effects. ***, ** and * represent significance levels at 1%, 5% and 10% respectively with heteroscedasticity-robust standard errors clustered at the firm level.

Dependent variable: Local Ownership	1	2	3	4
Non-Interpolated Trust Index	-0.098***	-0.092***	-0.095***	-0.108***
	(-4.97)	(-4.77)	(-4.94)	(-5.14)
Controls				
Firm size	-0.013***	-0.003***	-0.005***	-0.008***
	(-12.14)	(-3.35)	(-4.33)	(-3.08)
Market-to-Book	-0.001***	0.000	0.000	-0.000
	(-2.68)	(0.77)	(0.62)	(-0.71)
Book leverage	0.018**	0.000	0.003	0.009
	(2.50)	(0.03)	(0.44)	(0.92)
Profitability	-0.021***	-0.008	-0.010*	-0.011
	(-3.10)	(-1.38)	(-1.68)	(-1.33)
Cash holding	-0.039***	-0.028***	-0.027***	-0.010
	(-5.49)	(-4.07)	(-3.85)	(-0.96)
Institutional ownership	-0.019***	-0.006***	-0.005***	-0.004*
	(-10.59)	(-3.40)	(-2.76)	(-1.80)
Yearly return		-0.044***	-0.040***	-0.014*
		(-7.36)	(-6.45)	(-1.70)
Stock return volatility		-0.011***	-0.011***	-0.009***
		(-8.78)	(-8.82)	(-7.32)
Amihud illiquidity		0.351***	0.373***	0.389***
		(3.60)	(3.68)	(3.73)
Year FE	Y	Y	Y	Y
State FE	Y	Y	Y	-
Industry FE (2-digit SIC)	-	-	Y	-
Firm FE	-	-	-	Y
Cluster	Firm	Firm	Firm	Firm
No. of obs.	38,138	38,138	38,138	38,138
R-squared	0.12	0.15	0.16	0.61

Table A1 (Continued)

Panel B: Portfolio Sorted by Local Ownership in Low/High Trust Regions (Non-Interpolated)

Panel B presents tests on the returns of stock portfolios sorted by local ownership in low and high trust regions (dependent sorting). These tests use the *Non-interpolated Trust Index* to identify high/low trust regions. Panel B1 reports the returns of portfolios based on stocks located in low trust regions. Panel B2 reports the returns of portfolios based on stocks located in high trust regions. ***, ** and * represent significance levels at 1%, 5% and 10% respectively using robust standard errors with t-statistics given in parentheses. N denotes the number of total months.

Panel B1: Portfolio Sorted by Local Ownership in Low Trust Regions (Non-Interpolated)

Portfolio Sorted by Local Ownership	Average Local Ownership	Raw Return	FF 1-factor Alpha	FF 3-factor Alpha	FF 4-factor Alpha	N
Portfolio 1	-0.066	0.0072	0.0000 (0.01)	-0.0012 (-0.52)	0.0028 (1.48)	144
Portfolio 2	-0.009	0.0076	0.0018 (0.73)	-0.0018 (-1.07)	0.0010 (0.82)	144
Portfolio 3	0.008	0.0082	0.0025 (1.21)	-0.0008 (-0.61)	0.0012 (1.17)	144
Portfolio 4	0.056	0.0100	0.0035 (1.26)	0.0012 (0.71)	0.0038*** (2.68)	144
Portfolio 5	0.287	0.0121	0.0051 (1.23)	0.0041 (1.49)	0.0077*** (2.77)	144
Long Portfolio 5 & Short Portfolio 1		0.0049*** (2.78)	0.0050*** (2.89)	0.0053*** (3.13)	0.0049*** (2.68)	144

Panel B2: Portfolio Sorted by Local Ownership in High Trust Regions (Non-Interpolated)

Portfolio Sorted by Local Ownership	Average Local Ownership	Raw Return	FF 1-factor Alpha	FF 3-factor Alpha	FF 4-factor Alpha	N
Portfolio 1	-0.103	0.0086	0.0014 (0.35)	0.0006 (0.23)	0.0045 (1.61)	144
Portfolio 2	-0.022	0.0067	0.0007 (0.28)	-0.0020 (-1.13)	0.0011 (0.84)	144
Portfolio 3	0.005	0.0086	0.0027 (1.22)	0.0007 (0.50)	0.0027** (2.29)	144
Portfolio 4	0.056	0.0098	0.0032 (1.16)	0.0017 (1.06)	0.0041*** (2.95)	144
Portfolio 5	0.288	0.0095	0.0031 (0.77)	0.0016 (0.55)	0.0059* (1.91)	144
Long Portfolio 5 & Short Portfolio 1		0.0010 (0.70)	0.0017 (1.33)	0.0010 (0.76)	0.0014 (1.06)	144

Table A2: Respondent-Characteristics-Based Trust Index

Panel A: Trust Index by Survey Respondent Characteristics

This panel presents personal characteristics of survey respondents as identified by the World Values Survey and respondent-characteristics-based measures of the Trust Index. Respondents are classified by sex (male versus female), race ("White/Caucasian White" versus Non-"White/Caucasian White"), age (15-29, 30-49, more than 50), the level of education (high education levels include "University-preparatory type/Full secondary, maturity level certificate", "Some university without degree/Higher education" and "University with degree/Higher education", and low education levels otherwise), the financial health of family (High: "Save money" versus Low: "Just get by", "Spent some savings and borrowed money", "Spent savings and borrowed money"), and whether the respondent is the chief wage earner in the household (yes, no). For each geographical region, within a respondent category, we calculate the percentage of respondents answering "Most people can be trusted" to the survey question "Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?". The first two columns report the number of respondents in each category and the percentage among all respondents. The next four columns report the summary statistics of the respondent -characteristics based Trust Indexes, based on an overall sample of 571 state-year observations. We report the No. of obs., the mean, the median, and the standard deviation.

Respondent Characteristics	Survey Respondents		Respondent-specific Trust Index			
	Number	Percentage	Mean	Median	Std. dev.	N
Male	1,899	47.6%	0.372	0.359	0.081	571
Female	2,092	52.4%	0.380	0.373	0.084	571
White/Caucasian White	3,008	75.9%	0.412	0.426	0.068	571
Non-"White/Caucasian White"	955	24.1%	0.251	0.254	0.084	571
Age (15-29)	764	19.2%	0.295	0.288	0.088	571
Age (30-49)	1,599	40.3%	0.359	0.379	0.082	571
Age (more than 50)	1,608	40.5%	0.434	0.449	0.111	571
Education: High	1,817	45.6%	0.466	0.461	0.098	571
Education: Low	2,165	54.4%	0.295	0.299	0.074	571
Family financial health: High	1,551	40.7%	0.455	0.459	0.085	571
Family financial health: Low	2,260	59.3%	0.320	0.328	0.063	571
Chief wage earner	2,220	56.8%	0.383	0.393	0.077	571
Non- "Chief wage earner"	1,688	43.2%	0.370	0.377	0.071	571

Table A2 (Continued)

Panel B: Respondent-Characteristics-Based Trust Index and Local Ownership

This table presents regressions of local ownership and the respondent-characteristics based Trust Indexes. The dependent variable is the local ownership as previously defined. Column 1 reports results based on Trust Indexes by the sex of Survey Respondents. Column 2 reports results based on the Trust Indexes by the race of Survey Respondents. Column 3 reports results based on Trust Indexes by the age of Survey Respondents. Column 4 reports results based on Trust Indexes by the education level of Survey Respondents. Column 5 reports results based on Trust Indexes by the family's financial health of Survey Respondents. Column 6 reports results based on Trust Indexes by whether the survey respondent is the chief wage earner in a household. Firm controls (firm size, market-to-book ratio, book leverage, profitability, cash holding, institutional ownership, stock return, Amihud illiquidity and stock volatility) are included but are suppressed to conserve space. Year, state and industry fixed effects are included in all specifications. ***, ** and * represent significance levels at 1%, 5% and 10% respectively with heteroscedasticity-robust standard errors.

Dependent variable.: Local Ownership	1	2	3	4	5	6
Trust Index: Male	-0.216***					
	(-7.97)					
Trust Index: Female	0.009					
	(0.36)					
Trust Index: "White/Caucasian White"		-0.351***				
		(-10.57)				
		0.041**				
Trust Index: Non- "White/Caucasian White"		(2.24)				
Trust Index: Age (15-29)			-0.013			
			(-0.65)			
Trust Index: Age (30-49)			-0.104***			
			(-4.43)			
Trust Index: Age (more than 50)			-0.099***			
			(-6.30)			
Trust Index: High education				-0.133***		
				(-6.21)		
Trust Index: Low education				-0.029		
				(-1.41)		
Trust Index: High family financial health					-0.229***	
					(-9.28)	
Trust Index: Low family financial health					-0.016	
					(-0.55)	
Trust Index: Chief wage earner						-0.288***
						(-9.90)
Trust Index: Non- Chief wage earner						0.045**
						(1.97)
Firm Controls	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
State FE, Industry FE	Y	Y	Y	Y	Y	Y
Clustering	Firm	Firm	Firm	Firm	Firm	Firm
No. of obs.	38,138	38,138	38,138	38,138	38,138	38,138

Table A3: State level GSS Measure

This table reports our key results using the state level trust measure from the General Society Survey. An institutional investor is classified as a local investor if it is located in the same state as the headquarter state of the stock. For a given stock, local ownership is calculated as the fraction of holdings held by local investors minus the total market equity asset value of all investors located in the same state divided by the total market equity asset value of the entire institutional investor universe.

Panel A: Multivariate Analysis

Panel A reports results on the relation between trust and local ownership using the GSS trust measure. The control variables for firm characteristics include firm size, market-to-book, book leverage, profitability, cash holding, institutional ownership, past stock return, Amihud illiquidity, and stock return volatility. Year, state, and industry (2-digit SIC) fixed effects are included in different specifications from columns 1 to 3. Column 4 presents the specification with firm fixed effects. ***, ** and * represent significance levels at 1%, 5% and 10% respectively with heteroscedasticity-robust standard errors clustered at the firm level.

Dep. var.: Local Ownership	1	2	3	4
GSS Trust Index	-0.048***	-0.049***	-0.051***	-0.042***
	(-3.12)	(-3.23)	(-3.36)	(-2.77)
Controls				
Firm size	-0.013***	-0.003***	-0.005***	-0.008***
	(-12.08)	(-3.27)	(-4.26)	(-2.92)
Market-to-Book	-0.001***	0.000	0.000	-0.000
	(-2.64)	(0.79)	(0.65)	(-0.59)
Book leverage	0.018**	-0.000	0.003	0.008
	(2.47)	(-0.00)	(0.43)	(0.86)
Profitability	-0.021***	-0.008	-0.010*	-0.011
	(-3.10)	(-1.37)	(-1.67)	(-1.36)
Cash holding	-0.039***	-0.028***	-0.027***	-0.009
	(-5.49)	(-4.08)	(-3.85)	(-0.93)
Institutional ownership	-0.019***	-0.006***	-0.005***	-0.004*
	(-10.61)	(-3.42)	(-2.78)	(-1.82)
Yearly return		-0.044***	-0.041***	-0.016*
		(-7.43)	(-6.52)	(-1.87)
Stock return volatility		-0.011***	-0.011***	-0.009***
		(-8.79)	(-8.83)	(-7.34)
Amihud illiquidity		0.355***	0.379***	0.399***
		(3.64)	(3.73)	(3.83)
Year FE	Y	Y	Y	Y
State FE	Y	Y	Y	-
Industry FE (2-digit SIC)	-	-	Y	-
Firm FE	-	-	-	Y
Cluster	Firm	Firm	Firm	Firm
No. of obs.	38,138	38,138	38,131	38,138
R-squared	0.12	0.15	0.16	0.61

Table A3 (Continued)

Panel B: Portfolio Sorted by Local Ownership in Low/High Trust Regions (GSS Measure)

Panel B presents tests on the returns of stock portfolios sorted by local ownership in low and high trust regions (dependent sorting). These tests use the *GSS Trust Index* to identify high/low trust regions. Panel B1 reports the returns of portfolios based on stocks located in low trust regions. Panel B2 reports the returns of portfolios based on stocks located in high trust regions. ***, ** and * represent significance levels at 1%, 5% and 10% respectively using robust standard errors with t-statistics given in parentheses. N denotes the number of total months.

Panel B1: Portfolio Sorted by Local Ownership in Low Trust Regions

Portfolio Sorted by Local Ownership	Average Local Ownership	Raw Return	FF 1-factor Alpha	FF 3-factor Alpha	Carhart 4-factor Alpha	N
Portfolio 1	-0.074	0.0089	0.0023 (0.75)	-0.0001 (-0.03)	0.0029 (1.31)	144
Portfolio 2	-0.013	0.0094	0.0037 (1.44)	0.0002 (0.11)	0.0027** (2.20)	144
Portfolio 3	0.006	0.0090	0.0037* (1.68)	0.0003 (0.21)	0.0017 (1.42)	144
Portfolio 4	0.052	0.0107	0.0050* (1.90)	0.0016 (0.95)	0.0035** (2.33)	144
Portfolio 5	0.280	0.0130	0.0071* (1.94)	0.0047* (1.68)	0.0078*** (2.68)	144
Long Portfolio 5 & Short Portfolio 1		0.0042*** (2.60)	0.0048*** (3.06)	0.0048*** (3.07)	0.0049*** (2.99)	144

Panel B2: Portfolio Sorted by Local Ownership in High Trust Regions

Portfolio Sorted by Local Ownership	Average Local Ownership	Raw Return	FF 1-factor Alpha	FF 3-factor Alpha	Carhart 4-factor Alpha	N
Portfolio 1	-0.080	0.0071	-0.0005 (-0.12)	-0.0010 (-0.37)	0.0035 (1.55)	144
Portfolio 2	-0.014	0.0068	0.0008 (0.31)	-0.0018 (-0.93)	0.0017 (1.18)	144
Portfolio 3	0.009	0.0067	0.0005 (0.22)	-0.0017 (-1.05)	0.0010 (0.85)	144
Portfolio 4	0.063	0.0079	0.0010 (0.30)	-0.0003 (-0.12)	0.0032 (1.62)	144
Portfolio 5	0.292	0.0089	0.0018 (0.44)	0.0011 (0.38)	0.0053* (1.87)	144
Long Portfolio 5 & Short Portfolio 1		0.0018 (1.11)	0.0023 (1.46)	0.0021 (1.25)	0.0018 (1.02)	144

Table A4: Trust, Regulation Fair Disclosure, and Local Ownership

This table presents results on the impact of the passage of Regulation Fair Disclosure (Reg FD) rule on the relation between trust and local ownership. Reg FD was adopted by the SEC on August 2000 to curb the selective disclosure of material nonpublic information by firms to analysts and institutional investors. The post-Reg FD dummy is equal to 1 if the year is after 2001 and 0 (pre-Reg FD) otherwise.

Panel A: Univariate Sorts

Panel A presents the average local ownership of stocks located in the high/low trust regions during the pre-Reg FD period and during the post-Reg FD period, respectively. Both t-tests and Wilcoxon tests are reported to test whether the average local ownership is significantly different during the two periods.

Local ownership	Pre-Reg FD	Post-Reg FD	T-test: Pre=Post	Wilcoxon: Pre=Post
Low Trust	7.1%	4.3%	13.84***	9.28***
	(11830)	(10439)		
High Trust	6.5%	2.8%	15.13***	15.88***
	(8540)	(7329)		

Panel B: Multivariate Regressions

Panel B presents regression analysis following the baseline specification in Table V, Panel A. The dependent variable is the local ownership as previously defined. Trust Index* Post-Reg FD is the interaction between trust index and the post-Reg FD dummy. The post-Reg FD dummy is omitted since year fixed effects are included in all specifications.

Dep. variable.: Local ownership	1	2	3	4
Trust Index	-0.214***	-0.197***	-0.197***	-0.182***
	(-6.23)	(-5.87)	(-5.85)	(-4.92)
Trust Index * Post-Reg FD	-0.197***	-0.203***	-0.197***	-0.172***
	(-5.77)	(-5.98)	(-5.77)	(-4.32)
Controls				
Firm size	-0.021***	-0.005***	-0.006***	-0.009***
	(-23.17)	(-6.22)	(-6.81)	(-3.61)
Market-to-Book	-0.002***	0.000	0.000	-0.000
	(-3.74)	(0.32)	(0.22)	(-0.95)
Book leverage	0.029***	0.003	0.006	0.011
	(4.04)	(0.46)	(0.78)	(1.16)
Profitability	-0.020***	-0.008	-0.010*	-0.011
	(-2.85)	(-1.41)	(-1.73)	(-1.34)
Cash holding	-0.048***	-0.029***	-0.028***	-0.010
	(-6.84)	(-4.25)	(-3.95)	(-0.96)
Institutional ownership		-0.050***	-0.045***	-0.017**
		(-8.95)	(-7.56)	(-2.02)
Yearly return		-0.011***	-0.011***	-0.009***
		(-8.54)	(-8.66)	(-7.16)
Stock return volatility		0.289***	0.325***	0.358***
		(2.93)	(3.17)	(3.45)
Amihud illiquidity		0.068***	0.066***	0.037***
		(13.27)	(13.11)	(6.04)
Year FE	Y	Y	Y	Y
State FE	Y	Y	Y	-
Industry FE (2-digit SIC)	-	-	Y	-
Firm FE	-	-	-	Y
Cluster	Firm	Firm	Firm	Firm
No. of obs.	38,138	38,138	38,138	38,138
R-squared	0.114	0.156	0.163	0.615

Table A4 (Continued)

Panel C: Portfolio Returns

Panel C reports the returns of stock portfolios sorted by local ownership during the pre-Reg FD and the post-Reg FD periods, respectively. The procedure is the same as in Table VI to sort portfolios. At each month-beginning, all stocks are sorted into quintiles based on the previous quarter-end local ownership. Portfolio 1 is the portfolio with the lowest local ownership and portfolio 5 is the portfolio with the highest local ownership. Equally-weighted returns are calculated over the month for the five portfolios. For brevity, the table reports the long-short portfolio return, "Long Portfolio 5 & Short Portfolio 1", i.e., the difference in the returns between the highest and lowest local ownership portfolios. The raw return, the CAPM 1-factor, the Fama–French 3-factor and the Carhart 4-factor abnormal returns are reported for the long-short portfolio accordingly. Panel C1 report the results for stocks located in the low trust regions, and Panel C2 presents the results for stocks located in the high trust regions. ***, ** and * represent significance levels at 1%, 5% and 10% respectively using robust standard errors with t-statistics given in parentheses. N is the number of total months.

Panel C1: Long-Short Portfolio Returns in Low Trust Regions

Long Portfolio 5 & Short Portfolio 1	Raw Return	CAPM Alpha	Fama–French Alpha	Carhart Alpha	N
Pre-Reg FD	0.0063**	0.0067**	0.0069**	0.0059**	72
	(2.04)	(2.17)	(2.51)	(1.97)	
Post-Reg FD	0.0053***	0.0052***	0.0049***	0.0052***	72
	(3.22)	(3.19)	(2.70)	(2.88)	

Panel C2: Long-Short Portfolio Returns in High Trust Regions

Long Portfolio 5 & Short Portfolio 1	Raw Return	CAPM Alpha	Fama–French Alpha	Carhart Alpha	N
Pre-Reg FD	0.0014	0.0023	0.0013	0.0021	72
	(0.64)	(1.15)	(0.69)	(1.10)	
Post-Reg FD	0.0003	0.0008	0.0011	0.0013	72
	(0.15)	(0.43)	(0.59)	(0.68)	

Table A5: Trust and Local Ownership: Controlling for Additional Information Environment Measures

This table examines the effect of trust on local ownership controlling for additional information environment measures. Specifically, we control for the number of analysts, the probability of information-based trading (PIN) from Brown and Hillegeist (2007), and the return-volume coefficient C2 from Llorente, Michaely, Saar and Wang (2002). Year, state, and industry (2-digit SIC) fixed effects are included in different specifications from columns 1 to 3. Column 4 presents the specification with firm fixed effects. ***, ** and * represent significance levels at 1%, 5% and 10% respectively with heteroscedasticity-robust standard errors clustered at the firm level.

Local Ownership	1	2	3	4
Trust Index	-0.234***	-0.224***	-0.224***	-0.235***
	(-6.71)	(-6.55)	(-6.51)	(-6.01)
Controls				
Firm size	-0.010***	-0.003**	-0.004***	-0.005*
	(-8.38)	(-2.21)	(-3.20)	(-1.93)
Market-to-Book	-0.001*	0.000	0.000	-0.000
	(-1.77)	(0.56)	(0.39)	(-0.75)
Book leverage	0.012	-0.001	0.002	0.013
	(1.63)	(-0.20)	(0.28)	(1.32)
Profitability	-0.019***	-0.003	-0.005	-0.005
	(-3.05)	(-0.59)	(-0.84)	(-0.60)
Cash holding	-0.032***	-0.026***	-0.025***	-0.005
	(-4.41)	(-3.70)	(-3.50)	(-0.50)
Number of analysts	-0.014***	-0.006***	-0.005***	-0.003
	(-8.25)	(-3.04)	(-2.62)	(-1.44)
Probability of informed trading (PIN)	0.117***	0.029	0.021	0.041**
	(6.19)	(1.54)	(1.12)	(2.00)
Return-Volume coefficient (C2)	0.016**	0.009	0.008	0.007
	(2.09)	(1.16)	(1.15)	(1.11)
Institutional ownership		-0.043***	-0.040***	-0.013
		(-6.91)	(-6.10)	(-1.47)
Yearly return		-0.011***	-0.011***	-0.008***
		(-8.33)	(-8.48)	(-6.61)
Stock return volatility		0.405***	0.417***	0.306***
		(4.03)	(3.95)	(2.83)
Amihud illiquidity		0.064***	0.063***	0.035***
		(11.31)	(11.25)	(5.26)
Year FE	Y	Y	Y	Y
State FE	Y	Y	Y	-
Industry FE (2-digit SIC)	-	-	Y	-
Firm FE	-	-	-	Y
Cluster	Firm	Firm	Firm	Firm
No. of obs.	34,287	34,287	34,287	34,287
R-squared	0.119	0.148	0.156	0.623

Table A6: Controlling for Risk Aversion

This table examines the effect of trust on local ownership, controlling for local risk aversion. Specifically, we control for the religious population and Catholic-Protestant ratio in the state (e.g., Kumar, Page, and Spalt, 2011). The control variables for firm characteristics include firm size, market-to-book, book leverage, profitability, cash holding, institutional ownership, past stock return, Amihud illiquidity, and stock return volatility. Year, state, and industry (2-digit SIC) fixed effects are included in different specifications from columns 1 to 3. Column 4 presents the specification with firm fixed effects. ***, ** and * represent significance levels at 1%, 5% and 10% respectively with heteroscedasticity-robust standard errors clustered at the firm level.

Dep. var.: Local Ownership	1	2	3	4
Trust Index	-0.255***	-0.247***	-0.248***	-0.229***
	(-7.08)	(-6.94)	(-6.94)	(-5.90)
Controls				
Religious population	-0.117	-0.177*	-0.175*	0.007
	(-1.25)	(-1.90)	(-1.85)	(0.15)
Catholic-Protestant ratio	0.399**	0.335*	0.343*	0.013
	(1.98)	(1.69)	(1.73)	(0.57)
Firm size	-0.013***	-0.004***	-0.005***	-0.008***
	(-12.22)	(-3.48)	(-4.44)	(-3.05)
Market-to-Book	-0.001***	0.000	0.000	-0.000
	(-2.78)	(0.65)	(0.51)	(-0.90)
Book leverage	0.018**	0.001	0.004	0.009
	(2.56)	(0.10)	(0.52)	(0.99)
Profitability	-0.021***	-0.008	-0.010*	-0.011
	(-3.09)	(-1.42)	(-1.72)	(-1.37)
Cash holding	-0.039***	-0.027***	-0.027***	-0.010
	(-5.47)	(-4.01)	(-3.79)	(-1.02)
Institutional ownership	-0.019***	-0.006***	-0.005***	-0.003*
	(-10.47)	(-3.26)	(-2.61)	(-1.68)
Yearly return		-0.044***	-0.040***	-0.014*
		(-7.38)	(-6.47)	(-1.67)
Stock return volatility		-0.011***	-0.011***	-0.009***
		(-8.81)	(-8.85)	(-7.31)
Amihud illiquidity		0.335***	0.357***	0.365***
		(3.43)	(3.51)	(3.50)
Year FE	Y	Y	Y	Y
State FE	Y	Y	Y	-
Industry FE (2-digit SIC)	-	-	Y	-
Firm FE	-	-	-	Y
Cluster	Firm	Firm	Firm	Firm
No. of obs.	38,138	38,138	38,131	38,138
R-squared	0.12	0.15	0.16	0.61