

# Ratings and Asset Allocation: An Experimental Analysis\*

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## Abstract

Ratings provide a single summary measure for assets that may differ along multiple dimensions. To focus comparisons, ratings are often assigned within categories — groupings in which assets share important characteristics. Ratings can be harmful, however, if investors base decisions on ratings compared across noncomparable categories. We assess the effect of ratings in an investment allocation experiment where subjects always have complete information about investment characteristics, they make repeated investment decisions, and there is minimal computational burden. In this setting, ratings supply no new information, but categorized ratings affect investment decisions and harm performance. High-knowledge subjects make better decisions, but remain prone to the ratings effect.

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