

The Causal Effect of Stop-Loss and Take-Gain Orders on the Disposition Effect

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Abstract

We investigate whether automatic selling devices causally reduce investors' disposition effect (DE) in a laboratory experiment. Investors can actively buy and sell assets. Investors in the treatment group use stop-loss and take-gain options to automatically sell assets. In addition, we introduce a reminder condition that reminds investors about their selling plan if a limit is hit. Results show that the automatic selling device treatment significantly reduces the DEs, but the reminder treatment does not. Thus, the opportunity to ex ante commit to automatically selling at a loss causally reduces the disposition effect.

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