

Selling losers and keeping winners: How (savings) goal dynamics predict a reversal of the disposition effect


Published: 06 December 2013

Volume 26, pages 201–211 (2015) [Cite this article](#)



Marketing Letters



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Abstract

A well-documented behavioral pattern in consumer financial decision making is the disposition effect, which refers to the tendency to sell winning investments too early while holding on to losing investments too long. This bias has negative wealth consequences, because typically, individuals' losing investments continue to underperform while their winning investments continue to outperform. Using a goal-systemic framework, the present research indicates that individuals' susceptibility to the disposition effect can be reversed by activating a superordinate (savings) goal. Experimental results indicate that three effective ways to activate a superordinate (savings) goal, and thereby reverse the disposition effect, are as follows: (1) subtly prime it with goal-related words, (2) prime it by making an overall portfolio loss salient, and (3) prime it by explicitly mentioning a goal with a clear-end state.



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Notes

1. ANCOVAs that include gender, investment skills, and investment experience as covariates yield similar results.

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Acknowledgments

Part of this work was completed while Arvid Hoffmann was visiting the Foster School of Business at the University of Washington, whose hospitality is gratefully acknowledged. The authors thank the editor, Frank R. Kardes, and an anonymous reviewer for valuable recommendations. The authors thank Stefanie Kleimeier, Joost Pennings, Thomas Post, and Martin Wetzels for their helpful suggestions on earlier versions of this work. The authors thank Donna Maurer for her editorial assistance.

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Cite this article

Aspara, J., Hoffmann, A.O.I. Selling losers and keeping winners: How (savings) goal dynamics predict a reversal of the disposition effect. *Mark Lett* **26**, 201–211 (2015). <https://doi.org/10.1007/s11002-013-9275-9>

Published

Issue date

06 December 2013

June 2015

DOI

<https://doi.org/10.1007/s11002-013-9275-9>

Keywords

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[Disposition effect](#)

[Goal systems theory](#)

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