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

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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.

Notes

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

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