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Martha Stewart, Normal Investor

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Abstract

We listen to investors brag about their winning stocks and want to ask "May I have a list of all the stocks in your portfolio?" Polite people resist the urge but prosecutors need not be polite. The portfolio that Martha Stewart revealed to prosecutors and the jury at her trial is a portfolio of normal investors, containing both winners and losers, and the investment behavior she revealed is normal behavior, affected by cognitive biases and emotions. Nothing illustrates these better than the cognitive bias of hindsight and the accompanying emotion of regret.


Martha Stewart surely wishes, in hindsight, that she had not bought the many stocks she sold at a loss in December 2001. Martha Stewart surely wishes, in hindsight, that she had accepted the prosecutors' offer of a plea bargain. Last, and most ironic, Martha Stewart surely wishes, in hindsight, that she had held on to her ImClone stock. The shares she sold for less than \$60 in December 2001 could have been sold for more than \$85 at the end of June 2004.

Keywords: Martha Stewart, investor behavior, cognitive biases, emotion, disposition effect

JEL Classification: G11, G14

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