Quantitative Finance ›
Volume 14, 2014 - Issue 4: Special Issue on Behavioral Finance

Research Papers

Framing and the disposition effect: evidence from mutual fund investor redemption behaviour

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Pages 683-697 | Received 14 Dec 2012, Accepted 18 Jun 2013, Published online: 10 Sep 2013

Cite this article https://doi.org/10.1080/14697688.2013.819114 Check for updates

Abstra

Researc ... uals often
use simp ... spect to
portfolio ... disposition
effect ... rs) and
pron ... utual fund
investor ... draw the
redempt ... proceeds
within th ... hypothesis
that fra ... disposition
effect.

Keywords

Behavioral finance Investor behaviour Mutual funds Portfolio allocation Investments

JEL Classifications:

D14 D81 G2 G11

Acknowledgements

Niehaus is at the Moore School of Business, University of South Carolina and Shrider is at the Farmer School of Business, Miami University. The authors appreciate the helpful comments from two anonymous referees, Bill Even, Shingo Goto, Jacqueline Volkman Wise, Hong Yan, Donghang Zhang, seminar participants at the American Risk and Insurance Association 2012 Annual Meeting, Florida State University, The University of South Carolina, and the assistance of Bryan Furr.

Notes

[1]Barberis and Xiong (2009) present a formal model to analyze the conditions under which pr … (1998), Barber a … ia (2001), Lehenka … (2006), Lim (2006), I … Ben-David and Hirs …

[2]See e.g …

[3]It is … edemption' and 'sal … ence to the frame u … o indicate that the …

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[5]Investo … rformance can also affect trading behavior, but we have no way of controlling for these beliefs. A

belief in performance persistence will cause investors to be more likely to redeem poor performing funds than funds that have performed well. On the other hand, a belief in mean reversion will cause investors to be more likely to redeem good performers than poor performers. For discussion and analysis of mutual fund performance persistence, see Grinblatt and Titman (1992), Brown and Goetzmann (1995), Carhart (1997), and Bollen and Busse (2005).

[6]For December of 2002 (the 24th and final month of the sample period), only 281 (4.3%) of the 6,496 accounts in our sample have purchases in the prior 23 months for all of the funds in the account, and the average ratio of shares purchased over the prior 23 months to shares held at the beginning of the month across all account-fund observations in these 281 accounts is 0.46. Moreover, in only seven of the 281 accounts do all of the funds have a ratio of shares purchased over the prior 23 months to shares held at the beginning of the 24th month greater than 0.75. Simply stated, very few of the accounts have enough prior purchase data available to reliably calculate the purchase price.

[7]If an account has three funds of more than 25 shares and one or more additional funds of less than 25 shares, we treat the funds with less than 25 shares as being part of the portfolio.

[8]Full-service broker/dealers often have an approved list of mutual funds that are fully
supporte … oved fund
family a…

[9]By requ … funds. For
this rest … estors who
dispropo … of what we
find, i.e. … ceeds or
they … We have no
reaso…

[10]The m … he
indepen … nd the
explanat … of the
model th … probability.
We also … sers sold
with all of the same explanatory variables. In these models, we would expect a

coefficient on the random choice probability variable to be close to one. This is what we find, although the coefficient is typically statistically significantly different from one.

[11]An account can have both winners and losers, which means accounts in the loser analysis can also appear in the winner analysis.

[12]If an investor made multiple redemptions in a month and some of the proceeds are withdrawn and some reallocated within the account, we classify the investor as being under a sale frame.

[13]We are unable to describe the fixed effects as it would potentially identify the broker-dealer that provided the data. The number of fixed effects included in the analysis varies between 702 and 867.