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

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## Notes

<sup>1</sup>Barberis and Xiong (2009) present a formal model to analyze the conditions under which price bubbles can exist. See also Shleifer and Vishny (1998), Barber and Odean (2000), Shleifer and Summers (2001), Lehenka and Shleifer (2002), Shleifer and Summers (2006), Lim and Shleifer (2006), and Hirs and Shleifer (2006).

<sup>2</sup>See e.g.

<sup>3</sup>It is important to note that the 'redemption' of shares is not the same as the 'sale' of shares. The 'redemption' of shares is a process by which the fund manager can indicate that the fund is not performing well and that the fund is not a good investment.

<sup>4</sup>

<sup>5</sup>Investor beliefs about the future performance of the fund 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](#)).

<sup>6</sup>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.

<sup>7</sup>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.

<sup>8</sup>Full-service broker/dealers often have an approved list of mutual funds that are fully supported by the broker/dealer. We use this list to identify the approved fund family and the approved fund.

<sup>9</sup>By requiring that the account have at least three funds, we exclude investors who may be disproportionately represented in our sample. For example, we find, i.e., that the average number of funds sold is 1.5. We have no reason to believe that this is a biased sample.

<sup>10</sup>The model we use to estimate the probability of a fund being sold is based on the independent variables used in the model. We also use the same model to estimate the probability of a fund being sold with all of the same explanatory variables. In these models, we would expect a

<sup>13</sup>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.



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