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

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Abstract

Research on decision-making under uncertainty has highlighted that individuals often use simple heuristics and/or exhibit behavioural biases. Specifically, with respect to portfolio decisions, research has indicated that investors are subject to the disposition effect, i.e. they are reluctant to sell assets that have performed poorly (losers) and prone to sell assets that have performed well (winners). We find that the mutual fund investors in our sample are subject to the disposition effect when they withdraw the redemption proceeds from their account, but not when they reallocate the proceeds within the account. The evidence is consistent with Shefrin and Statman’s hypothesis that framing a transaction as a transfer as opposed to a sale mitigates the disposition effect.

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