

Detecting Anchoring in Financial Markets

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Detecting Anchoring in Financial Markets

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Abstract

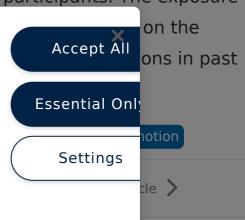
Anchoring is a term used in psychology to describe the common human tendency to rely too heavily (anchor) on one piece of information when making decisions. Here a trading algorithm inspired by biological motors, introduced by L. Gil [2007], is suggested as a testing ground for anchoring in financial markets. An exact solution of the algorithm is presented for arbitrary price distributions. Furthermore the algorithm is extended to cover the case of a market neutral portfolio, revealing additional evidence that anchoring is involved in the decision making of market participants. The exposure

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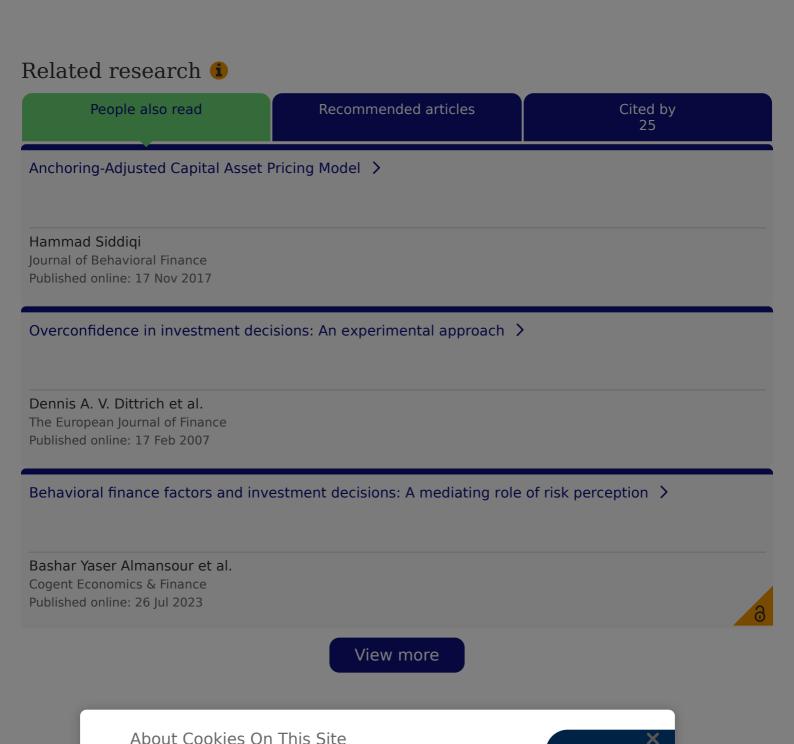


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