The causal effect of stop-loss and take-gain orders on the disposition effect

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Abstract

We investigate in a laboratory experiment whether the option of automatic selling devices causally reduces investors’ disposition effect. Our investors can actively buy and sell assets, and, in the treatment group, additionally use stop-loss and take-gain options to automatically sell assets. Investors who had access to the automatic selling devices had significantly smaller disposition effects. The reduction was driven by a significant increase in realized losses. The proportion of winners realized was similar in both treatments. Additionally, our setup provides new evidence on which reference prices investors relate to when choosing limits for automatic sales.

Keywords: disposition effect, stop-loss orders, limit sales, experiment, finance

JEL-Classification: C91, G02, G11

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