Decision Processes Colloquia

Monday, October 16, 2017

Where: 250 JMHH

When: 12:00 – 1:15 pm

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Stock Trading Biases: From Neurofinance Experiments to Real World Markets

ABSTRACT:

Recent research in neurofinance has investigated the psychological mechanisms that generate stock trading biases. This research has provided methods for effectively debiasing trading mistakes, which have been validated in the laboratory. Here, we test whether these findings from controlled lab experiments can be extended to real world stock markets. Using a combination of investor level data from a Chinese brokerage house and a natural experiment, we estimate the impact of a shock that increased the salience of a stock's purchase price, but did not change the investor's information set. We employ a difference-in-differences approach and find that the salience shock causally increased the disposition effect – the tendency to sell winning stocks more often than losing stocks. We document substantial heterogeneity across investors in the salience effect and we show that an investor level proxy for "salient thinking" can explain this heterogeneity. More generally, our results support a recently proposed class of models in which salience impacts economic choice.

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