# The Role of Learning in the Disposition Effect

Kevin Trutmann
University of Basel

Steve Heinke
University of Basel

**Abstract:**

The decision of whether to hold or sell an asset should be based upon its expected future earnings. Nonetheless, investors seem to treat assets differently when they are in a gain rather than a loss position, being generally more willing to sell the former. This tendency, known as the Disposition Effect (DE), has been shown to be robust and contrary to profit maximizing behaviour (Odean, 1998). Previous explanations have focused mainly on the preferences of the investors. In contrast, the current project proposes a mechanism using context sensitive learning and argues that this mechanism leads to the observed effect. We test for the importance of learning effects in an experimental setting, where we elicit beliefs and observe actual trading decisions in a dynamic investment task. Here, increasing the amount of information about future price movements and thus mitigating the need for learning decreases the strength of the DE exhibited by participants, in line with the proposed mechanism. The data further shows that participants did base their decisions on their beliefs about the future price movements and that these beliefs moved closer to a Bayesian rational benchmark with increasing information.