

A Dark Side of Hope: Understanding Why Investors Cling onto Losing Stocks

Siria Xiyueyao Luo

Vrije Universiteit Amsterdam

Femke van Horen

Vrije Universiteit Amsterdam

Kobe Millet

Vrije Universiteit Amsterdam

Marcel Zeelenberg

Vrije Universiteit Amsterdam and Tilburg University

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Abstract

Investors often keep losing stocks too long, despite this being irrational. This phenomenon is part of the disposition effect (“ride losers too long, and sell winners too soon”). The current research examines the role of hope in explaining why people ride losers too long. Three correlational studies (1A-C) find that people’s trait and state hope positively correlate with their inclination to keep losing stocks. Two further experiments reveal that people are inclined to hold onto losing (vs. not-losing) stocks because of their specific hope to break even, and not because of their general hope to make a profit (Studies 2 & 3). Study 3 also suggests a potential intervention to the tendency to keep losing stocks by reducing investors’ hope ex ante. The findings add to the literature of the disposition effect by providing empirical evidence for the role of hope. They also add to the literature of hope by showing its role in a negative financial situation and thus show a “dark side” of it.

Keywords: *Disposition effect; hope; break even*

Track: Consumer Behaviour