

South African Traders Show a Sunny COVID-19 Disposition (Effect)

Paul Nixon¹, Evan Gilbert²

Momentum Investments, South Africa

Abstract

The decision to sell a stock can be influenced by whether that decision is framed as a gain or loss. This can influence investor trading behaviour in two ways. Firstly, investors may hang onto losing positions for too long (loss aversion) and secondly, they may trade winning positions too frequently (regret aversion). Together these two behaviours form one of the most widely studied biases in investment behaviour, namely the disposition effect (DE). This paper examines the presence and size of the DE for a large group of South African traders on the Momentum Securities trading platform before and during the COVID pandemic. The pandemic provides a natural experiment to examine differences in trading behaviour driven by crisis events. The segmentation approach adopted in this paper (age and gender) offers novel insights which can allow stock brokerages to nudge most severely affected clients to secure better investment outcomes.

Keywords: Loss aversion, prospect theory, regret aversion, segmentation, trading