

# THE “DISPOSITION EFFECT” IN A STUDENT-MANAGED INVESTMENT FUND: AN APPLICATION OF THE OWN-BENCHMARK PORTFOLIO

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## Abstract

*This study examines the disposition effect in a student-managed investment fund. Trades were made in the fund only twice a year. Each semi-annual set of trades was made by a new management team. Previous studies have found strong evidence of the disposition effect in the investment decisions of experimental subjects, individual investors, investment clubs, and mutual fund managers. We find no evidence for the disposition effect in this student-managed investment fund. Over the period of the study, the fund outperforms its own-benchmark portfolio by an average of 31% over a one year holding period, by an average of 105% over a two year holding period, and by an average of 58% over a three year holding period. These results are consistent with prior results showing that new mutual fund managers are less subject to the disposition effect than continuing managers. We find that use of the own-benchmark portfolio as one benchmark for a student-managed investment fund provides an excellent motivation for discussion of behavioral finance concepts in portfolio management and the potential for behavioral biases in investment decisions.*

## INTRODUCTION

Abstract

Introduction

Disposition Effect

Own-Benchmark Portfolio

Investment Fund

Student-Managed

Trades

Management Team

Experimental Subjects

Individual Investors

Investment Clubs

Mutual Fund Managers

Behavioral Finance

Portfolio Management

Behavioral Biases

Investment Decisions

Outperforms

Own-Benchmark Portfolio

31%

105%

58%

One Year Holding Period

Two Year Holding Period

Three Year Holding Period

Prior Results

New Mutual Fund Managers

Continuing Managers

Use of the Own-Benchmark Portfolio

Student-Managed Investment Fund

Motivation for Discussion

Behavioral Finance Concepts

Potential for Behavioral Biases

Investment Decisions

Utility  
loss  
gain

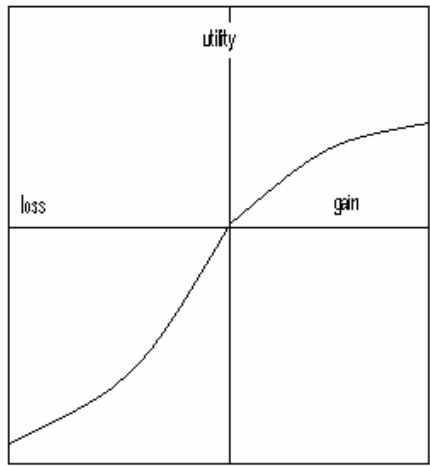
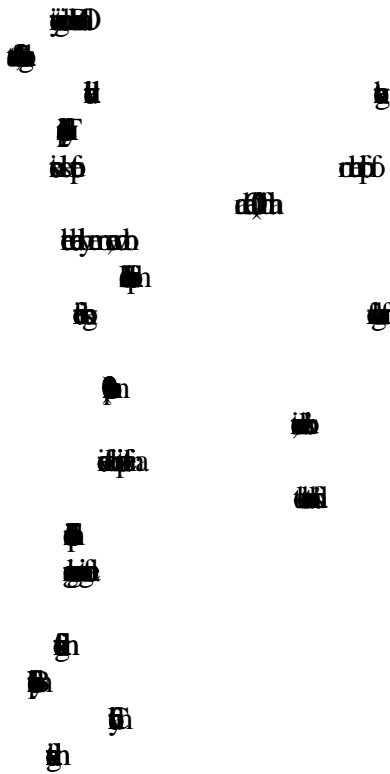


Figure 1. Prospect Theory

Utility

loss  
gain

Utility



DATA

Utility  
loss  
gain

Utility  
loss  
gain



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## CONCLUSIONS

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