Rolling Mental Accounts

Cary D. Frydman*

Samuel M. Hartzmark†

David H. Solomon*

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Abstract: When investors sell one asset and quickly buy another (“reinvestment days”), their trades suggest the original mental account is not closed, but is instead rolled into the new asset. Investors display a rolled disposition effect, selling the new position when its value exceeds the investment in the original position. On reinvestment days, investors display no disposition effect (consistent with no disutility from realizing a loss) and make better selling decisions. Mutual funds exhibit a larger disposition effect when outflows prevent them from rolling accounts. Using a laboratory experiment, we show that reinvestment causally reduces the disposition effect and improves trading.

*Frydman and Solomon are at the University of Southern California Marshall School of Business. †Hartzmark is at the University of Chicago Booth School of Business. Contact at cfrydman@marshall.usc.edu, samuel.hartzmark@chicagobooth.edu, and dhsolomo@marshall.usc.edu, respectively. We would like to thank Justin Birru, Alex Imas, Kelly Shue, Neil Stewart, Abby Sussman, George Wu and seminar participants at the Miami Behavioral Finance Conference 2015, Aalto University, Brigham Young University, University of California Berkeley, University of Chicago, HEC Paris, University of Houston, Rice University, and the University of Southern California. All remaining errors are our own.