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About the Fear of Reputational Loss: Social Trading and the Disposition Effect*

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Abstract

This article studies the relationship between giving financial advice and the disposition effect in an online trading environment. Our empirical findings suggest that leader traders are more susceptible to the disposition effect than investors who are not being followed by any other trader. Using a difference-in-differences approach, we show that becoming a first-time financial advisor increases the disposition effect. This finding holds for investors who engage in foreign exchange trading and for investors who trade stocks and stock market indices. The increased behavioral bias may be explained by leaders feeling responsible to their followers, by a fear of losing followers when admitting a poor investment decision, or by an attempt by newly appointed leaders to manage their social image and self-image.

Keywords: Social trading, peer advice, disposition effect, online trading platforms.

JEL Classification: D14; G11; G23; G24.

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