

Why Portfolio Managers Sell Winners Too Soon: Belief Bias Eroding Returns In Every Market

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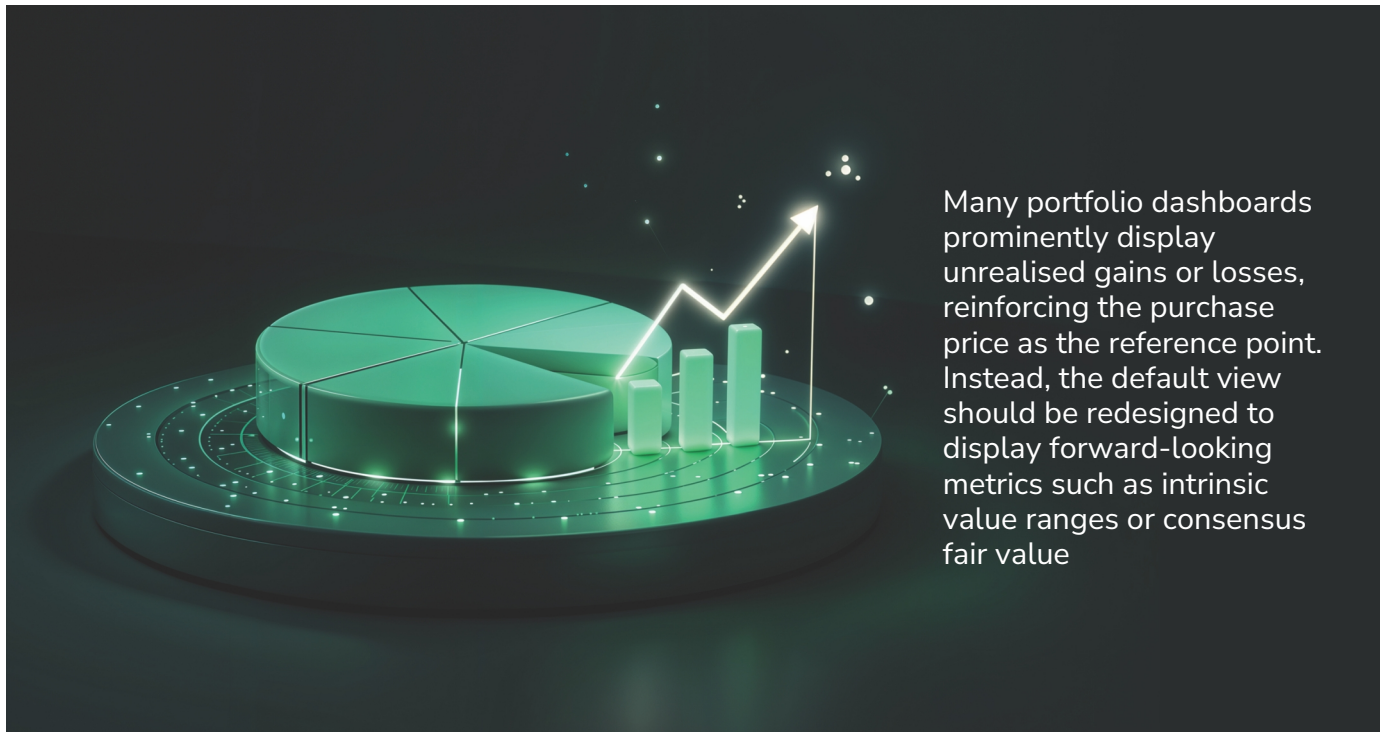


Problem of practice

Portfolio managers in equity markets are often too quick to put their winning investments on the market and too slow to let go of the losers. This behaviour is known as the disposition effect. For CIOs, portfolio managers, wealth advisers, the investment committee members at asset management companies, pension funds, and family offices, this recurring behavioural bias can quietly weaken portfolio performance. It can erode risk-adjusted returns, trigger avoidable taxes, and leave capital tied up in underperforming positions.

The conventional wisdom attributes this behaviour to loss aversion – the idea that managers avoid selling because crystallising a loss feels more painful than the reward of realising an equivalent gain. [Research](#) by Qiu, van de Kuilen, Weitzel, and Xu challenges this reasoning.¹ Their study suggests the problem is driven by how managers revise their views when the new information is received. Trading experience alone does not seem to correct this bias. Therefore, investment firms should redesign decision processes so managers are prompted to reassess their beliefs as prices and evidence change. The solution lies in identifying interventions that can strengthen sell discipline without replacing sound investment judgment

¹The article 'Irrational Beliefs May Drive the Disposition Effect: Evidence from Financial Professionals' by Jianying Qiu, Gijs van de Kuilen, Utz Weitzel, and Yilong Xu, featured in Volume 61, Issue 3 *Journal of Financial and Quantitative Analysis*, shows that financial professionals often sell profitable investments too early and hold loss-making ones too long because they do not fully revise their expectations in response to new market information



Scale of disposition effect

The disposition effect is widespread, persistent and expensive. One cannot ignore the measurable toll. A study of 10,000 US brokerage accounts revealed that investors sold profitable stocks about **50%** more often than loss-making stocks.² Further, stocks sold by investors outperformed the ones they held on to by **3.4 percentage points** in the year ahead.³ Among US equity mutual fund managers, **22–55%** have been found to exhibit the disposition.⁴ In their study, Qiu and team found that **34% of 237** financial professionals displayed the disposition tendency.⁵

This matters at scale and can put a serious dent in client wealth. US equity mutual funds alone managed about **US\$17.5 trillion** in July 2026.⁶ In India, the number of trading accounts has skyrocketed from under 40 million in 2019 to more than **185 million** in early 2025.⁷ Then

there is the less obvious second-order cost. When a fund trade is motivated by this **bias**, it fails to respond properly to fundamental news, distorting prices, and hindering the market's ability to absorb new information.⁸

More troubling, this behaviour persists even among more **experienced** investors and professional traders. Experience alone does not appear to correct it.⁹

The causes of such biased behaviour appear to be less about appetite for risk and more about systematic errors in interpreting new evidence. Qui and the team identify three reasoning patterns that can contribute to this behaviour (see **Table 1**).

- **Conservatism:** Tendency to over-rely on the purchase price and a reluctance to adjust as the contrary evidence mounts. During the 2000–02 downturn, institutional investors continued to rely on Cisco,

Table 1: Belief profiles and their risk of bias

Belief type	What the manager believes	Resulting behaviour	Risk of bias
Rational updater	Revises views fully based on new information	Holds or sells on fundamentals	Low
Conservatism	Anchors to the purchase price	Sells winners, holds losers	High
Mean-reversion	Losers will bounce back	Holds losers indefinitely	High
Gambler's fallacy	Winning runs must end	Sells winners prematurely	High

Source: Created by the author(s) based on Jianying Qiu et al., "Irrational Beliefs May Drive the Disposition Effect: Evidence from Financial Professionals," *Journal of Financial and Quantitative Analysis* 61, no. 3 (2026): 1247–82, <https://doi.org/10.1017/S0022109025102159>

Lucent and Nortel even as fundamentals weakened.

- **Mean-reversion thinking:** Expectation that a loser will eventually make it back to the entry price. Investors held Japanese equities through the 1990s, awaiting a Nikkei recovery. More recently, in India, many investors held on to the stock of the fintech startup Paytm, even as its price fell from [US\\$29](#) in 2021 to below [US\\$6](#) by early 2023.¹⁰
- **Gambler's fallacy:** Believing that a stock on a run must be due for a drop despite the independence of consecutive moves. This leads to the premature offloading of sound businesses. Investors who sold out of HDFC Bank or Asian Paints after a brief spell of underperformance missed out on the subsequent long-term compounding.

A process-based remedy

Since experience will not correct a belief-driven approach, redesigning the decision-making process is the solution. There are four ways to do this, listed by the effort they require.

- **Replace price anchors with value anchors:** Many portfolio dashboards prominently display unrealised gains or losses, reinforcing the purchase price as the reference point. Instead, the default view should be redesigned to display forward-looking metrics such as intrinsic value ranges or consensus fair value.

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- **Introduce a written thesis re-examination rule:** Create a pre-defined threshold as a trigger for review. For example, if there is a 15-20% drop from the purchase price, the manager must reassess the investment case. Before continuing to hold the stock, the manager must document why the original thesis still stands. The threshold should reflect stock volatility and the team's review frequency. It is a checkpoint for belief, not a stop-loss.
- **Use pre-commitment rules:** Set rules in advance for when to rebalance investment. For example, if a stock grows beyond the percentage of the portfolio originally assigned to it, automatically sell part of it. This reduces the chances that the bias will influence the decision to sell.
- **Train for probability, not just risk profiling:** Train managers to update [probabilities](#) following a price move and measure them against the benchmark.¹¹ Certification courses make a habit of equating risk attitude with tolerance, but the skill at hand is different: the ability to revise your estimates when fresh data comes in.



A tablet displaying a financial dashboard. The dashboard features several charts and graphs: a line chart titled 'Investment Goals' showing a trend over time; a bar chart titled 'Revenue Earnings' showing monthly data; a donut chart titled 'The Current Super Oil' showing a percentage; and a line chart titled 'Total Earnings from' showing a fluctuating trend. The dashboard also includes a header with a logo and navigation icons, and a footer with a date and time. The text on the dashboard is in a mix of English and placeholder text, such as 'Investment Goals', 'Revenue Earnings', 'The Current Super Oil', and 'Total Earnings from'. The tablet is placed on a white surface, and a small potted plant is visible in the background.

The above remedies are visible in practice. Fundsmith Equity, an actively managed London-based global equity fund, focuses on how investment compounds over time and over the holding period, rather than on gains or losses relative to the purchase price. Their policy of minimising short-term trading has kept their portfolio turnover in the low double digits, around 9-13%. This approach reduces the influence of the [purchase price](#) on sell decisions, although fund managers may still adjust their strategy over time.¹² The American private asset management company Dimensional Fund Advisors excludes the purchase price from individual sell decisions to achieve greater consistency.

Where rules may not work

where the line is drawn. If a rule automates the sale instead of calling for a review, it can go wrong in a disrupted market. The flash crash on 6 May 2010 and the ETF disruption on 24 August 2015 are case in point. Automatic stop-loss orders sold investments at unusually low prices, turning temporary price drops into actual losses even though prices recovered within hours. The [US Securities and Exchange Commission](#) noted that both institutional and [retail](#) orders were filled at distorted prices.¹⁴ A better safeguard would have been a rule mandating a written reassessment of the investment case before selling. The distinction matters: an automatic trigger can crystallise losses, while a belief checkpoint creates space for judgment.

The process-based remedies have limitations. It is difficult to determine whether a manager's bias stems from conservatism, mean-reversion thinking, or the gambler's fallacy, so firms may need to use several safeguards rather than rely on a single one. At the same time, the research linking belief errors to the disposition effect comes from controlled experiments. In real portfolios, client pressures, committee dynamics, and incomplete information may make these remedies less effective, especially in asset classes such as private equity and infrequently traded debt instruments.

Finally, written reviews must remain substantive rather than become box-ticking exercises. The value lies not in completing the process, but in genuinely reassessing the investment case.

Implementing the remedy

The good news is these interventions are relatively inexpensive because they rely on process changes rather than major technology or staffing investments. Portfolio dashboards can be reconfigured within weeks, while a written thesis review needs only a simple template and predefined trigger. Rebalancing rules can be built into existing investment policies and order-management systems, and probability training can be delivered through short, periodic workshops.

The bigger issue is ownership, not cost. Senior leadership, usually the CIO, must treat sell discipline as a process to be managed and ensure that teams consistently follow the agreed rules when investment decisions come under pressure.

Beyond investment decisions

The same bias can affect decisions beyond investing. Leaders may continue funding an outdated capital project, defend an acquisition because of the price already paid, or sustain a weak product line in the hope of a turnaround. In each case, past investment can prevent new evidence from changing the decision. The same remedies apply: reduce sunk-cost anchors, create clear triggers to reassess the original case, and train decision-makers to update their judgments as new information emerges.

The disposition effect is therefore not simply an investment bias but a process problem in how people revise their views under pressure. Addressing it requires more than experience. Organisations need decision processes that prompt genuine reassessment and teams trained to respond objectively to new evidence.



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