

**PI-HSIA YEN**

Yu Da University of Science and Technology, Taiwan

## **SELLING LOSERS AND WINNERS: A TEST OF THE DISPOSITION AND HOUSE MONEY EFFECT**

### **Abstract:**

This paper test of the disposition and house money effect across market states in the context of mutual fund investors in China, based on a sample period that extends from January 2006 to December 2017. Previous studies primarily document the existence of the disposition effect in China without addressing: first, the impact of market states (bullish, bearish and neutral market) on the investors' disposition effect; and, second, we separate the fund performance according to the different levels of gains and losses. Our results suggest that investors are characterized by a house money effect when they have extreme capital gains under a bull market, and investors are characterized by an inverse disposition effect (they redeem their losing mutual fund units) when they have moderate capital losses under a neutral market. Thus, disposition effect is not uniform; it varies across market states in China. Our findings are robust to aggregate, investor levels, and the others robustness testing factors.

### **Keywords:**

disposition effect; mutual fund investors; market states; house money effect, China

**JEL Classification:** G02, G10