

# **Myopic loss aversion: An experimental analysis of the change of reference points due to flexibility of investments or frequency of information feedback**

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<Abstract>

In this study, we experimentally investigate whether flexibility of investment or frequency of information feedback are important factors in the movement of investors' reference points, based on which investors evaluate investments. The results of previous studies are considered to be different due to the difference in experimental designs. However, we show that these differences could be interpreted by the movement of reference points according to the differences in flexibility of investment or the frequency of information feedback. Here, we use a two-step binomial model to represent stock price fluctuations. This model involves an intermediate period wherein gains or losses are carried over, which has the advantage of making it possible to determine whether investors' reference points move. Our study supports the hypothesis that flexibility of investment explains the majority of the differences in investor behavior, with frequency of information feedback making a smaller contribution. It confirms that the reason that investors reduce investments in risky securities is owing to the movement of their reference points in the treatment of the high flexibility of an investment. Finally, it finds that investors do not move their reference points or reduce investments in risky securities in situations of high information feedback.

**Keywords:** Intertemporal decision making, myopic loss aversion, change of reference points, flexibility of investment, information feedback, experiment

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