

Abstract

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Disposition Effect in an Emerging Market Empirical Study on Egyptian Stock Market

Homo economicus human rationality is the corner stone of several economic and financial theories, especially those concerned with decision making processes. On the contrary, behavioral theories propose many theories that declare human irrationality such as prospect theory, mental accounting, regret aversion and self-control which are the basic four causes of disposition effect. This study clarifies the connection between the four causes and their effect, identifies the factors increasing and decreasing that effect in some individuals, and records the methods used to examine its existence across the world. This study also proves the existence of the disposition effect, as an evidence of human irrationality, in part of individual investors in Egyptian stock market. This study applied Odean's approach of testing the existence of DE on a sample of 45 Egyptian investors. Proportion of gains realized and proportion of losses realized were calculated for each investor for years 2008, 2009 and 2010. The first hypothesis of the study was formulated to test the existence of DE in Egyptian investors' decisions. The second hypothesis tested the stability of this effect across years, and it was found that investors suffer from DE across years, whereas DE is not a year-specific phenomena. The last hypothesis tested whether males and females are suffering from the same level of DE. The findings indicated that there is a difference between the level of DE for males and that of females.