Week 8 Report
Cognitive bias selection and data training

After having a fruitful conversation with Professor Kaisler, I've chosen to concentrate on the Disposition Effect, a well-researched cognitive bias that is common in the area of investment behavior.

The Purpose of Choosing the Disposition Effect

The Disposition Effect is a significant factor in financial decision-making and offers a good opportunity to study investors' cognitive biases. In contrast to the rational investing approach, this bias is characterized by an investor's predisposition to cling onto assets that have declined in value (losers) while prematurely selling assets that have gained in value (winners).

The Disposition Effect is an excellent option for this study for a number of reasons:

Prevalence: The Disposition Effect is a persistent cognitive bias that affects a wide range of investors, from beginning investors to seasoned investors. Thus, understanding it and lessening its effects can have wide-ranging effects.
Quantifiable: The Disposition Effect enables itself to being clearly assessed and identified using transactional and pricing data, unlike some cognitive biases.
Significant Impact: This bias may result in less-than-ideal investment choices, which may affect market dynamics, investor performance, and even the efficiency of financial institutions and regulatory agencies.

By concentrating on the Disposition Effect, the objective is to use statistical analysis, machine learning, and deep learning approaches to discover this bias in trade data. The learned insights will be used to create a nudge-based system that aims to reduce this bias, ultimately assisting investors in making more logical, data-driven decisions. By accomplishing this, the study can make a substantial contribution to the field of behavioral finance by offering workable answers to a prevalent yet sometimes disregarded cognitive bias.