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There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Sunday, March 24, 2013

Endowment Effect

"Endowment Effect" is a cognitive bias. It is also known as "Divestiture Aversion" in psychology. Simply, it refers to our tendency to value an item more once we own it. We are always less willing to part with something which we own. Think of how a book on your shelf that you have not used for years seems to increase in value the moment somebody asks for it.

Endowment effect is applicable to ideas and methods equally well. Once we commit a lot of time and effort to learn something, we start to own it and become emotionally attached to it. Even if we find this useless at a later stage, we are reluctant to disown it and discard it. Worse, we spend a lot of time and energy to find justification to hang on.

This cognitive bias is surprisingly strong among traders. During the initial stages of development; they get exposed to many things and spend a lot of time and energy to master these skills. They hold on to these old possessions for ever for no good reason. This will do a lot of harm than good.

Ensure that you are spending your time and energy on something "Actionable". Your analysis should be focused on something easily "Recognizable", "Reactionable" and "Repeatable" otherwise you are analyzing to paralyze yourself. Frequently do an audit. Eliminate the non essentials and get rid of the time wasters.

Reduce, focus and simplify.

Posted by [SWART Trader](#) at 12:24 PM



3 comments:

[Anonymous](#) March 27, 2013 at 5:14 PM

Yes truenice

[Reply](#)



[Trekkie](#) June 2, 2014 at 11:57 PM

:) thanks ST.

[Reply](#)



[xrtrader1](#) January 7, 2015 at 1:54 PM

I was holding on to an old possession, moved on (today) after deliberating past 8 months :). Thanks ST.

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