

## Lecture 30

### Anchoring Effect

Anchoring is a term used in psychology to describe the common human tendency to rely too heavily one trait or one piece of information when making decisions.

Studies have tested how we value a product after being exposed to high or low number before. People being exposed to a high number valued the product almost 4 times more than people who were exposed to a low number before.

Anchoring also happens when we hold on to a price or piece of information and disregard more recent information.

#### How it affects our trading:

Traders get anchored way too much to the first analysis they made of the stock. If a trader thinks a stock might go up, he will tend to hold that belief for a long time and disregard new information that might or should make him change his mind. Another common anchor is the purchase price or target price of a position. Some traders refuse to sell a stock close to their profit target and just wait for the price to reach their target only to see the stock turn around and reach their stop instead.

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