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A Study on the Dispositional Effectiveness of Investors — A Case Study Based on Efunds

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Abstract. Disposal effect is a classic phenomenon in behavioral finance, which refers to the irrational behavior of investors who tend to sell profitable assets prematurely and hold losing assets for a long time. Based on the theory of behavioral finance, this paper examines the existence and formation mechanism of the disposition effect in China's capital market and draws the relationship between net value volatility and investor behavior by analyzing the relevant data of the Blue Chip Select Mixed Fund of Efunds Fund, the leader of China's public fund industry. By comparing the extent of the disposition effect in different markets, an in-depth study of the disposition effect in the fund market not only helps to understand the behavioral patterns of investors and fund managers, but also reveals the micro foundations of the behavior behind macro issues such as market volatility, fund performance persistence, and systemic risk. The paper concludes with relevant recommendations based on improving the impact of the disposition effect on the market.

Keywords: Disposition Effect, Fund Market, Investor Behavior

1. Introduction

Your paper will be part of the journals therefore we ask that authors follow the guidelines explained in this example, in order to achieve the highest quality possible. In the financial market, investors' behavioral patterns have been an important topic of academic research and industry attention. Among them, the Disposition Effect, as a widespread phenomenon of irrational behavior, has a significant impact on investors' decision-making process and market performance. Disposition effect refers to the tendency of investors to sell profitable stocks prematurely and hold loss-making stocks for a long time, which often leads to the inability of investors to fully realize capital gains and increases the potential risk of capital loss [1].

In recent years, with the development of behavioral finance, more and more studies have shown that investors' decision-making behavior is not completely rational, but is influenced by a variety of psychological biases. The disposition effect, as one of the important psychological biases, has been thoroughly studied by many scholars from different perspectives. For example, Shefrin and Statmanyi first proposed the concept of disposition effect and confirmed its existence through empirical studies [2]. They found that investors show different risk attitudes when facing profits and

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losses, i.e., risk averse when making profits and risk seeking when making losses, and this asymmetric risk attitude leads to the disposition effect.

In the Chinese market, the investor's disposition effect has also received extensive attention. Based on the data of Chinese A-share market, Xiao Xinrong and Zhou Yanyi investigated the relationship between investors' reference point dependence and stock returns, and found that the disposition effect also exists significantly in the Chinese market and is affected by factors such as investors' holding time and overreaction to information [3]. This study provides a new perspective to understand the behavioral patterns of investors in the Chinese market. As another example, Xindan Li, Jining Wang, and Hao Fu systematically analyzed the trading behavior characteristics (e.g., disposition effect, over-trading, etc.) of individual investors based on the data of the Chinese securities market [4].

In addition, as an important investment institution, the behavioral characteristics of investors in funds have also attracted much attention. The studies of Lu Zhen and Zou Hengfu and Liu Yuhui et al show that there are significant inertia and reversal effects in the Chinese stock market, and these effects are closely related to the disposition effect of investors [5,6]. Wang, Mei-mei and Xiong, Heping empirically tested the behavior of Chinese stock market investors through Prospect Theory (Prospect Theory) and verified the association between loss aversion and disposition effect [7]. As an important participant in the market, fund investors' behavioral characteristics may also have an important impact on fund performance.

As one of the leading asset managers in China, the behavioral characteristics of its investors in Efund are of great significance in understanding the investor behavior of the fund industry as a whole. Therefore, in this paper, I will take Efunds Fund as an example, focusing on Efunds Blue Chip Select Mixed Fund, and through the method of case study, I will explore in depth whether its investors have a disposition effect and the extent of the disposition effect. Through this study, I expect to provide fund investors with more scientific investment guidance, and at the same time, help fund management institutions better understand the behavioral patterns of investors, so as to optimize their investment strategies and management methods.

2. Case description

2.1. Industry background of China's public fund market and characteristics of investor behavior

Since its inception in the late 1990s, China's public fund market has realized a double leap in scale and structure under the multiple impetus of residents' wealth growth, policy support and deepening reform of the financial market. By the end of 2024, the scale of public fund management exceeded 30 trillion yuan, and the number of investor accounts exceeded 700 million, making it the second largest public fund market in the world [8]. This growth stems from both the diversification of product types (e.g., innovations in equity, hybrid, and index funds) and the improvement of investor protection mechanisms by the regulatory layer, such as the floating fee rate reform proposed in the Action Plan for Promoting the High-Quality Development of Public Funds, which is aimed at optimizing the mechanism of binding the interests of investors and managers through the performance-linked fee model.

At the level of investor behavior, China's public fund market shows a significant “irrational bias”. Research shows that individual investors generally have a disposition effect, i.e., they tend to “sell for profit and hold for loss” - redeem funds too early to lock in gains when they make profits, and passively hold funds to wait for the return of capital when they lose money [9]. This phenomenon

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stems from the prospect theory and loss aversion theory in behavioral finance: investors are twice as sensitive to losses as they are to gains, which leads to an excessive risk preference for loss-making assets and excessive risk aversion for gain-making assets [10].

2.2. Background of EFD Fund and its industry representation

Founded in 2001, EFD Fund Management Co., Ltd. is one of the first batch of comprehensive asset management organizations in China. As of the end of the first quarter of 2025, the company's management scale exceeded RMB 2.8 trillion yuan, ranking among the top three in the industry, and its diversified product lines cover active equity, fixed income, index and quantitative products. Efunds Blue Chip Select Mixed Fund is the benchmark of the company's active equity products. Established in 2018, the fund focuses on high-quality blue-chip stocks in A-shares and Hong Kong stocks, and is known for its strategy of “selecting individual stocks + dynamic position”. As of April 2025, the size of the fund exceeded RMB 60 billion, with an annualized return of 12.5% over the past three years, significantly outperforming the CSI 300 Index.

2.3. Basis of case selection

This study selects Efunds Blue Chip Select Mixed Fund as the research object, mainly based on the following three considerations:

Typicality of behavioral characteristics: the fund has a large and diversified investor base and structure, with individual investors accounting for about 65%, and its trading behavior can reflect the phenomenon of disposition effect prevailing in the market.

Data verifiability: The redemption data, holder structure and NAV fluctuation information disclosed in the fund's periodic reports can be directly benchmarked against the quantitative indicators of the disposition effect in academic literature.

Policy practice significance: As an industry leader, Efund's investor behavior research can provide empirical support for policy optimization such as floating rate reform and investor education.

3. Case study

Investors usually use the cost price (or a certain historical net asset value) of a fund at the time of purchase as a psychological reference point. Changes in the daily NAV will constantly trigger investors' judgment of “profit” or “loss”, thus affecting their redemption or holding decisions. This study takes Efunds Blue Chip Select Mixed Fund as the research object and selects relevant data from 2019 to 2024 for analysis. Data sources include: daily fund NAV, quarterly subscription and redemption volume (data from Efunds Fund's website and Wind database).

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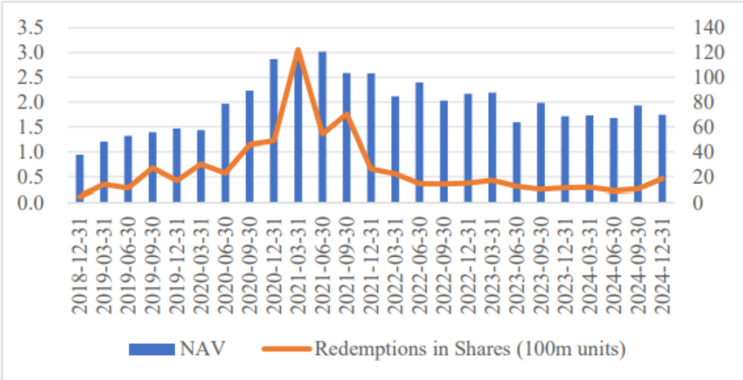

Figure 1. Trend chart of fund NAV vs. redemption volume

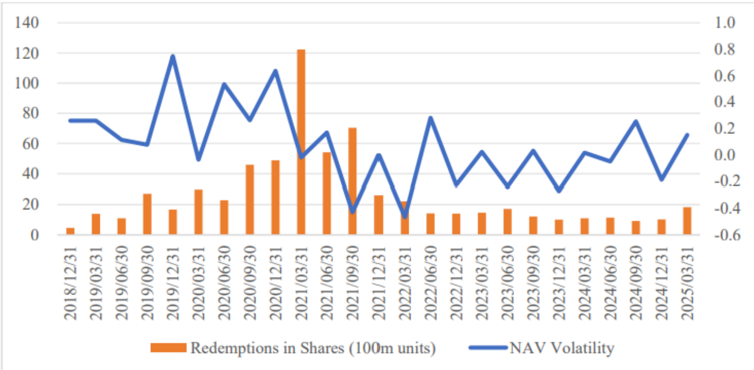

Figure 2. Trend chart of fund NAV fluctuation volume and redemption volume

This study selects Efunds Blue Chip Select Mixed Fund as the research object, mainly based on the following three considerations:

By analyzing the data in Figure 1, it can be concluded that the net value per unit of Efunds Blue Chip Selection Mixed Fund is significantly positively correlated with the redemption volume range. Figure 2 fully illustrates that investors are more inclined to make subscription or redemption transactions in the face of fluctuations in the fund's NAV, at which time the investor's disposition effect dominates.

Table 1. Comparison of fund NAV and redemption volume data

Time	Fund NAV ($)	Subscriptions(billions)	Redemptions(billions)
2019Q1	1.2046	9.42	13.92
2020Q3	2.2292	105.50	45.85
2022Q2	2.3959	15.17	14.29
2023Q4	1.7135	6.62	11.04

Table 1 selects some quarterly data of Efunds Blue Chip Select Mixed Fund, focusing on the fund's sustained NAV rise accompanied by a significant increase in redemption volume in the third quarter of 2020. Meanwhile, the fund's NAV peaked in the second quarter of 2022, accompanied by a significant increase in the ratio of redemptions to subscriptions, and a gradual decline in NAV in the fourth quarter of 2023, accompanied by a slowdown in redemptions.

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Dispositional effects are pervasive and do not only exist in the public equity markets described above. However, their intensity, manifestations, drivers and consequences vary significantly across markets and are mainly influenced by the structure of market participants, the information environment, liquidity, transaction costs, decision-making mechanisms and psychological anchors. Dispositional effects in the fund market are complex and sometimes amplified by factors such as principal-agent relationships, professionalism and group decision-making, liquidity facilitation, and performance pressures [11, 12].

Table 2. Cross-sectional comparison of disposal effects in different markets

Market type	Individual stock market	Real estate market	Fund market
Participant structure	Large number of retail investors, some institutions	Individual investors, institutional investors, developers	Fund agents, fund principals
Decision markers	Individual decision making	Individual /family decision making	Professional fund managers (individuals or groups)
Information environment	Information explosion, difficult to distinguish between truth and falsehood,susceptible to emotions	Information opacity, high cost of access, strong localization	Relative transparency (regular reporting)
Liquidity	High liquidity (T+0/T+1)	Very low liquidity,long trading cycles	High liquidity (open-ended funds can be redeemed daily)
Transaction Costs	Relatively low (commission, stamp duty)	Very high (intermediary fee, tax, time cost)	Low (redemption fee, management fee)
Mental anchoring points	Cost of buying individual stocks	Cost of buying individual stocks,Cost of buying real estate	Market highs Cost of subscribing for fund shares/historical NAV highs
Disposition Effect	Disposition effect is very significant, supported by numerous empirical studies	Existing but dampened, mostly in the form of “selling” losing properties rather than trading frequently for profits	Investor level: significant, redeeming profitable funds (pocketbook), holding losing funds At the fund manager level: present but more subtle, professionalism and risk control make the disposal effect less pronounced than for retail investors

To summarize the peculiarities of the fund market in response to the comparative performance of the disposition effect in Table 2, the core points of difference are specified:First, Duality: the existence of both principals and agents;Second, Professionalism buffer: fund managers' disposition effect is usually weaker than that of retail investors [13];

Third, Institutional distortions: performance pressure, ranking and redemption mechanisms may induce or amplify irrational selling by fund managers (especially of loss-making assets), or even produce a “reverse disposal effect” [14]; And, Direct impact of investor behavior: redemptions by investors (especially for profitable funds) force fund managers to sell and may disrupt their strategies.

Dispositional effects are a common human weakness across markets, but the fund market, due to its unique principal-agent structure, high liquidity, participation of professional institutions, performance pressure mechanism, and redemption system, makes its dispositional effects multi-

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layered (investors + fund managers), complex (may be suppressed, distorted, or amplified), and systemic impact (wide reach) [15]. The fund market is designed to allow professional investors (fund managers) to help retail investors overcome behavioral biases (e.g., dispositional effects). However, in reality, fund managers themselves are not completely rational, and are strongly constrained by irrational investor behavior (redemption pressure) and harsh performance appraisal systems, resulting in the disposition effect not only not being effectively eliminated in the fund chain, but also possibly manifesting itself in a more insidious or drastic way, or even being systematically amplified (e.g., redemption wave).

Due to the irrational behavior of investors can bring many negative impacts, such as: passive long holdings to avoid realizing losses, missed adjustment opportunities and frequent buying and selling resulting in gains eroded by transaction costs. In order to reduce the dispositive effect to bring excessive damage to investors, China's Securities Regulatory Commission (SRC) issued the “Opinions on Accelerating the High-quality Development of Public Funds” in 2022, which put forward the “Counter-cyclical Sales Guidance” (which requires fund sales organizations to take reverse operation in the market cycle). However, the data shows that in the short term, investor behavior is still dominated by the disposal effect, and the existence of the disposal effect is contradictory to the policy objectives.

4. Conclusion

Taking Efunds Blue Chip Select Mixed Fund as an example, this paper studies the disposition effect of fund investors by analyzing the fund's net value and redemption volume, and obtains the following conclusions:

(1) When the NAV rises, investors may choose to redeem for fear of gains retraction and thus cash in their profits;

(2) When the NAV falls, investors may choose to continue holding due to loss aversion to avoid recognizing losses;

(3) Disposal effects are more likely to be triggered when the NAV is volatile. Frequent ups and downs can exacerbate investors' emotional reactions and lead to irrational trading;

(4) The disposition effect in the fund market is complicated and sometimes amplified by the “principal-agent” relationship, professionalism and group decision-making, liquidity convenience, performance pressure and other factors.

Combined with the irrational behavior of investors faced by China's investment market at present, this paper gives the following suggestions:

First, Floating rate reform: reduce investors' impulse to redeem due to short-term gains through the performance-linked fee model;Secondary, Investor education: strengthen the popularization of behavioral finance knowledge and help investors recognize the negative impact of the disposition effect;Third, Tool innovation: develop intelligent investment tools to provide investors with real-time behavioral deviation alerts.

Future investor-based research on the disposition effect can explore the phenomenon of the disposition effect from different perspectives, such as combining the new topic of behavior in climate change and ESG investing, and exploring how ESG (environmental, social, and governance) factors change the psychological mechanisms of the disposition effect.

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