



**Don't trade,
and don't
hold on to
your losers,
says Prof.
Terrance
Odean.**

NEARLY EVERY day in his college campus office, Professor Terrance Odean fields press interviews — from *The Wall Street Journal* to *The International Herald Tribune*. Why is this unassuming academic, 49, so popular with the fourth estate? Well, Odean's got ingenuity, insight and information — and all of it shows up in the tantalizing studies he conducts into investor decision-making.

"The central message of my work is: Don't be overconfident and confuse brains with a bull market. When people are successful, they take too much credit for their success. When they fail, they find something else to blame. In a bull market, investors think they have greater ability and take larger risks," which acts to shrink returns, explains Odean, assistant finance professor at the University of California-Davis' Graduate School of Management.

A recent, widely quoted Odean study probing overconfidence (conducted with Brad M. Barber) showed that men trade far more actively than women — and thereby hurt returns. "We've [historically] seen differences in the overconfidence levels of men and women in finance and math, so we expected men would trade more than women.

Investing 101

But the 45 percent difference was much more pronounced than expected. We found that women were less bad at [investing] than men, who think they know more than they actually do."

Odean's eye-opening research stems from his specialty, behavioral finance, which, he explains, "takes into consideration how people actually make decisions." Indeed, his studies reveal that individual investors don't always do what's best when left to their own devices. So it's easy to see why, not just the media, but financial advisers seek him out. Merrill Lynch management, he says, "has asked my opinion on how they can advise investors."

One Odean study of 10,000 accounts at a large discount firm demonstrated that individual investors sell winners and hold losers — except in December, when tax-motivated selling holds sway. "I found that stocks that were being sold for a gain subsequently outperformed the losers people were holding onto. If an investor wants to sell something," says Odean, "it should be one of their losers."

The professor is something of a late bloomer, having earned his B.A. at age 40 and a Ph.D. in finance just two years ago, at the University of California, Berkeley. Before opting to return to school, the Minneapolis native programmed computers and earlier held a variety of odd jobs, including construction worker and New York City cab driver. While studying for his Ph.D., he co-owned a Pacific Stock Exchange seat and even flirted with becoming an options trader. But after a visit to the noisy Exchange floor, he says, "the thought of spending years standing in a crowd of shouting people didn't appeal to me."

Now Odean's portfolio consists only of mutual funds. He used to invest much more aggressively. "I try to practice at least *some* of what I preach!" he jokes. "My broker is probably annoyed these days about how seldom I trade!" ■