

We estimate the disposition effect assuming that investors define gains and losses, at a psychological level, with respect to an alternative reference point, different from the purchase price. We test three alternative rules and find that adopting the average of the realisations of the last five trading days prices (Recent rule) leads to the biggest departure of the disposition effect from the original estimate. Assuming that investors adopt the Recent rule to define their reference point leads to a much lower disposition effect, in particular if investors trade more and their trades are shorter.