HEDGING YOUR BETS: A MOTIVATIONAL PERSPECTIVE

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This research investigates differences in how individuals react to outcomes of hedging decisions by examining the relationship between goal orientation and locus of attention. We argue that rather than assess the outcome as a whole, individuals tend to focus on the different components of the hedge, which we broadly define as any strategy that offsets the risk of an existing stake (status quo) by counterbalancing it with a new stake (change), such as betting on a new contender as well as the standing favorite at the racetrack. We propose that the locus of attention – whether the status quo or the change is focal – varies as a function of an individual’s regulatory goal orientation, a psychological framework that identifies two motivational systems (Higgins 1997). We hypothesize that prevention-oriented (promotion-oriented) individuals base their reactions on the consequences of the status quo stake (new stake), which we find evidence for in Experiments 1-3. In Experiment 4, we extend the locus-of-attention hypothesis by demonstrating that when a choice is framed as maintaining the status quo (initiating a change), prevention-oriented (promotion-oriented) individuals are more discriminating than promotion-oriented (prevention-oriented) individuals. Moreover, we find that these effects drive behavioral intentions.
Hedging one’s bets involves offsetting one’s risk in a current position by taking on a counterbalancing position, or, as the Oxford English Dictionary puts it, securing oneself “against loss [on a bet or other speculation] by making transactions on the other side so as to compensate more or less for possible loss on the first.” Typically, protection from a potential loss is possible because the hedge components move in opposition. For instance, hedge fund managers may take an equity position in Airbus to offset Boeing shares already in the portfolio when a government contract is pending. Or a gambler at the racetrack may hedge his bet on his current favorite by also putting money down on a promising new contender.

What is unclear is how people assess the outcome of a hedging decision. How satisfied will the gambler be if his old favorite emerges the winner? How much satisfaction will the gambler experience if the new entrant wins? If the payoffs are equivalent, the gambler should be equally content regardless of whether the status quo choice wins or the new horse wins. We find evidence, however, that gamblers register different levels of satisfaction depending on which part of the hedge pays off.

A stock-investing context provides another perspective for predicting how hedging outcomes might be assessed. An investor who sells half her stock but maintains the other half may feel more positive when the stock falls the next day than when the stock rises even though the overall portfolio is worth more when the share price rises and worth less when the price falls. Yet, a second investor might feel more negative when the stock falls the next day than when the stock rises. How an investor reacts to the next-day stock price has to do with which part of the portfolio is the locus of attention – the half that was sold, as with the first investor, or
the half that was maintained, as with the second investor. In order to explore this locus-of-attention explanation, we examine hedging decisions in terms of their two components, the status quo component, which may be represented in the stock-investing context by the half of the shares an investor maintains, and the change, or new action, component, which may be represented by the half of the shares an investor sells.

The gambling and investing scenarios suggest people do not evaluate the risk-mitigating strategy as a whole but tend to focus on one component or the other. The goal of the current research is to understand how hedging strategies are evaluated by establishing the conditions under which people may have differing reactions due to differing loci of attention. We find we can manipulate the locus of attention by shifting individuals’ regulatory orientation.

In this paper, we adopt a conceptualization of hedging that is not specific to any particular domain but a general model that would be useful for understanding a range of contexts. In doing so, we establish the substantive contribution of this work by demonstrating the prevalence of the hypothesized explanation in diverse settings. Moreover, we show that individuals’ loci of attention, induced by their regulatory tendency, drive behavioral intentions.

Strategies to “hedge one’s bets” are prolific. Financial professionals frequently advise individual stock investors to sell half their stake in a company to lock in gains while maintaining exposure (Budden 2000; Damato 2003; Lubanko 2001; McKeough 2004). In addition, the Wharton/Chase Derivatives Study (1995) reports that more than 70% of firms employ hedging to manage corporate exposure to uncertainty. Such tactics are used to offset a wide variety of risks in corporate settings, including the variability of financing options (Froot, Scharfstein, and Stein 1993), foreign currency fluctuation (Geczy, Minton, and Schrand 1997), uncertain corporate tax
losses (Smith and Stulz 1985; Stulz 1984), and production management under uncertain demand (Harrison and Van Mieghem 1999; Huchzermeier and Cohen 1996; Van Mieghem 2003).

Despite the breadth of domains in which hedging strategies are employed and their overall prevalence, there has been little prior work on how individuals react to a hedging outcome. Yet, an understanding of how hedging strategies are viewed should be of substantive interest, especially to individual consumers and to practitioners who promote and employ hedging techniques to manage risk.

In this paper, we propose that people have diverse reactions to hedging outcomes because they focus on different component of the strategy – the status quo component or the change component. Because the locus of attention is the main variable of interest, it is important to consider the factors that will influence how attention shifts. We begin by examining how extant theory relating to goals and motivation addresses the significance of status quo and change.

RELEVANCE OF GOALS

Because gamblers and investors – and consumers in general – often make decisions in the service of a broader strategy, an individual’s goals and motivation are likely to drive how an outcome is perceived. We hypothesize that a key determinant relates to individuals’ self-regulation, especially with regard to how goals are identified and pursued. According to Higgins’ self-regulatory focus framework, individuals have an overarching goal of promoting gains or preventing losses (Higgins 1997, 1998). This framework draws a distinction between two types of motivational states and the goals associated with them: prevention goals that relate to avoiding negative outcomes, typically most concerned with responsibilities, obligations, and safety, and promotion goals that relate to attaining positive outcomes, typically most concerned with advancement, achievement and aspirations.
Regulatory focus theory asserts that the kinds of goals people have determines cognition by activating goal-relevant information. For example, regulatory goal focus has been shown to affect attention to goal-compatible strategies (Higgins, Roney, Crowe, and Hymes 1994), enhance memory for goal-consistent information (Higgins and Tykocinski 1992), influence objects’ perceived value (Higgins, Idson, Freitas, Spiegel, and Molden 2003), facilitate persuasion in consumer contexts (Aaker and Lee 2001), intensify emotions (Idson, Liberman, and Higgins 2000), and affect tolerance for errors of omission versus errors of commission (Crowe and Higgins 1997). Recent findings by Zhou and Pham (2004) show for the first time that promotion and prevention regulation impacts consumers’ investment behavior. We suggest regulatory goal focus is active in guiding the processing of information related to the distinct components of hedging strategies and influence how individuals react to the outcomes.

In striving for the goal of safety and security, a prevention-oriented individual must be vigilant to protect the status quo. Likewise, because a promotion orientation compels advancement, what is necessarily the object of exploration is novel action, or change. Therefore, we predict that motivational orientation – one’s regulatory goal focus – drives a shift in locus of attention. We propose that individuals have a tendency to examine the status quo and change in a way that is compatible with their regulatory focus; the locus of attention for those with a prevention orientation is the status quo, whereas the locus of attention for those with a promotion orientation is change. Further, we propose that due to heightened attention to status quo or change, those with a prevention orientation will be more discriminating when choosing an option that is framed according to maintaining the status quo, and those with a promotion orientation will be more discriminating when choosing an option that is framed according to change. We refer to these predictions as the locus-of-attention hypothesis.
Previous findings in the literature are suggestive of our belief that there exists a link between a prevention orientation and the status quo being the locus of attention. Prior work suggests that when the old alternative is a relatively safe option, people choose to stick with the status quo rather than accept a new alternative (Samuelson and Zeckhauser 1988; Kahneman, Knetsch, and Thaler 1991; Hartman, Doane, and Woo 1991). For example, Hartman et al. (1991) observed a preference for the status quo utility company when participants were asked about service interruptions and power failures, which is suggestive of a prevention orientation. Similarly, an omission bias is observed when consequences could be negative. For instance, when vaccinations could pose a threat to children (Ritov and Baron 1990; Baron and Ritov 2004), people have a tendency to refrain from initiating a new action, such as inoculations, because they may be concerned with monitoring and guarding the status quo.

We also find support for the plausibility of the locus-of-attention account in the literature on action bias (Gleicher et al. 1990; Landman 1987; Tanner and Medin 2004). People have a tendency to prefer action when the outcome sought is positive, for instance when actions could improve the environment (Tanner and Medin 2004). This suggests that when the goal is advancement or improvement, as is the case with a promotion orientation, people may be prone to consider new action. Patt and Zeckhauser (2000) also report findings that are compatible with our predictions. In conducting environmental surveys, these investigators found that people favorably consider change when the motivation is for advancement, such as improving water quality, but they opt for maintaining the status quo when the proposed action would prevent a worsening situation (e.g. an increase in gas emissions).

Liberman, Idson, Camacho, and Higgins (1999) find that the endowment effect, the reluctance to exchange one’s current possession for one of equal value, can be attenuated when a
promotion goal is primed, suggesting a link between preferring a current object and a prevention orientation. Liberman and her colleagues also show that task substitution, which involves the option to take on a new action (Lewin 1951), is more likely under a promotion focus. Framing our hedging context in terms of status quo and change bears on our research question of interest because staying the course and offsetting any risk by embarking on a new action can be construed as the conceptual counterparts of status quo and change, respectively.

The present research differs from previous work on status quo and change in two significant ways. First, we present evidence that regulatory focus not only moderates preference for a status quo option or preference for a change option but it actually draws differential processing attention to the options. This distinction is an important one because the current work is the first to propose and test such a process-level hypothesis. Second, we argue that the one-to-one mapping in which, ceteris paribus, promotion fosters a preference for change and prevention fosters a preference for stability proposed by Liberman et al. (1999), must be qualified. We find instances in which prevention-oriented people are just as inclined to choose change as promotion-oriented people as well as instances in which promotion-oriented people are just as inclined to choose status quo as prevention-oriented people. Furthermore, the locus-of-attention explanation proposed here is instrumental in explaining this observation.

**OVERVIEW OF THE RESEARCH**

In four experiments, we test the premise that differences in regulatory orientation prompt different evaluations of hedging strategies due to a shift in the locus of attention. The first two experiments suggest a prevention orientation induces attention toward the status quo component of a hedging strategy and a promotion orientation draws attention toward the change component. In Experiment 1, we manipulate regulatory orientation using a priming task and measures
participants’ satisfaction with the result of a horserace in which bets have been placed on an old favorite, representing status quo, and a new entrant, representing change. The results show participants primed with a prevention (promotion) focus are more satisfied when the old favorite (new entrant) wins. In Experiment 2, we manipulate a prevention and promotion orientation among university undergraduates by embedding the goal in the investment context and measure their reactions to a stock price rise or fall immediately following a given decision to sell half, representing change, and hold half, representing status quo, their shares. We find that participants in a prevention (promotion) condition appear to be focusing on the half of the portfolio that they held (sold). Cognitive response data corroborate the hypothesis that attention is focused on different parts of the portfolio according to regulatory orientation.

The purpose of Experiment 3 is to seek convergent evidence by deliberately making salient the locus of attention, either the action of holding half, representing status quo, or selling half, representing change. We reasoned that if we could produce the same results in Experiment 3 as in Experiments 1 and 2 by instructing participants to focus on what we believed prevention- and promotion-oriented participants were attending to, we could conclude that prevention and promotion were operating as hypothesized. As expected, we found Experiment 3 yielded the same pattern as Experiments 1 and 2. In Experiment 4, we extend the locus-of-attention hypothesis by showing that prevention-focused (promotion-focused) investors make more discriminating decisions when asked about options framed in accordance with status quo (change). Furthermore, this study shows how the effects we observe drive behavioral intentions.

**EXPERIMENT 1**

The goal of the first experiment was to test whether respondents given a horseracing context would have different levels of satisfaction with a race outcome depending on their
regulatory goal orientation. We presented participants, who had been primed to have a promotion orientation or a prevention orientation, with a horseracing scenario in which they were told that they would be betting simultaneously on two horses – a known favorite, which had a winning record, and a new entrant, which a friend had declared a “sure thing.” Participants’ satisfaction with the race outcome was used to establish whether the respondent’s attention was on the new horse (representing change, or a novel action) or the old favorite (representing status quo).

Thus, the design was a 2 (regulatory orientation priming task: prevention, promotion) × 2 (winning outcome: old favorite, new entrant) factorial. A prevention orientation was expected to result in more satisfaction when the old favorite won, whereas a promotion orientation was expected to result in more satisfaction when the new entrant won.

Method

Participants. The research participants were 53 undergraduate students who were recruited to participate in a consumer behavior study, which consisted of several surveys. They were given credit in partial fulfillment of a course requirement for their participation.

Procedure. Respondents were first asked to engage in a task intended to manipulate their goal orientation. This was done under the guise of seeking background behavioral information about college-age consumers. Specifically, they were asked to write about their duties and obligations (prevention) or their aspirations and ambitions (promotion) and how these have changed since they entered college. This manipulation was borrowed from Higgins et al. (1994), who employed it successfully to vary respondents’ regulatory focus.

Next, respondents were asked to read a scenario in which they would have to imagine themselves betting on horses at a racetrack. Participants were told they had been betting on a winning horse for the past month but that on this particular day a friend recommended betting on
a new horse, a “sure thing.” According to the scenario, the participant decided to bet on the old favorite but also to put an equal amount of money on the new entrant. Participants were then told that either the old favorite or the new entrant had won the race. After reading the scenario, respondents were asked to rate their satisfaction with the outcome on a 7-point scale that was anchored with “satisfied” and “unsatisfied.”

**Analysis and Results**

Data from Experiment 1 were subjected to a full-factorial analysis of variance. None of the covariates were significant and were therefore excluded from the analysis. Two participants failed to complete the first task according to the instructions, and their responses were omitted from the sample.

*Response.* Respondents were asked to evaluate how satisfied they were with the horseracing outcome. Figure 1 presents the results for this average response score, categorized by the independent variables.

An analysis of variance yielded a significant two-way interaction \( F(1, 47) = 8.85, p < .005 \). These results indicated that participants whose regulatory focus was prevention were more satisfied when they were told that their old favorite won \( (M = 4.92) \) than participants who were told that the new entrant won \( (M = 3.46) \); \( F(1, 47) = 4.79, p < .03 \). However, participants whose regulatory focus was promotion were more satisfied when the new entrant won \( (M = 4.92) \) than those who were told that their old favorite won \( (M = 3.54) \); \( F(1, 47) = 4.09, p < .05 \).

These results suggest that the new horse was the locus of attention for promotion-oriented participants. These respondents were more satisfied when the new entrant won and less satisfied
when the old favorite won. This is most plausibly explained by the tendency of the promotion-oriented respondents to focus on the *change* component – the fate of the new entrant. The prevention-oriented individuals, on the other hand, responded in a way that reflected a focus on the *status quo* component – the old favorite. These respondents were more satisfied when the old favorite won and less satisfied when the new entrant won.

At this point, two potential alternative accounts to our explanation should be addressed. First, it is plausible that promotion individuals react more strongly to a tip about a “sure thing” than would prevention individuals, resulting in more satisfaction when the tip pays off and less satisfaction when the tip fails to pay off. Therefore, in a follow-up study, we eliminate this possible confound by presenting the information in a more neutral fashion and by introducing ambiguity surrounding the situation.

Another possible rival for the observed effects may have to do with the possibility that promotion (prevention) individuals disregard the status quo (change), not that they attend to change (status quo). A control condition, in which participants are primed with neither promotion nor prevention, may be helpful in determining a baseline from which to judge attention to status quo or change. However, a no-prime condition does not necessarily ensure an unbiased baseline. Prior work suggests that individuals have a chronically accessible default regulatory focus. For example, Lee, Aaker, and Gardner (2000) assert that members of individualist societies, such as Western cultures, exhibit a promotion focus, whereas interdependent societies, such as Eastern cultures, are prevention-focused, due to socialization processes. Therefore, a no-prime condition does not imply that neither a promotion focus nor a prevention focus is operative, only that the regulatory focus is unmanipulated. In order to test the
viability of this rival, we examine cognitive responses in the next study. By examining thoughts, we discern with greater specificity whether status quo or change is the locus of attention.

**EXPERIMENT 2**

In Experiment 2, we sought to rule out the two alternative accounts by implementing two changes in our experimental context. First, instead of a tip for “a sure thing,” participants received news of a change of events in a more neutral manner, which favored neither status quo nor change. Second, we elicited participants’ cognitive responses in addition to scaled items so that we could measure the content of respondents’ thoughts. We also changed the setting from a horseracing scenario to a stock-investing context in order to test the robustness of our theoretical explanation. We presented participants with a scenario in which either selling shares or holding shares could be construed as the point of attention. By leading participants to adopt a regulatory orientation (promotion or prevention) in Experiment 2, we were able to test whether a respondent’s focus was on the shares that were sold (representing change) or the shares that were held (representing status quo), which subsequently was expected to drive the nature of the investor’s affective response.

The locus of attention can be detected based on investors’ response when the day-after stock price rises or falls. We predict that a promotion orientation will lead investors to focus on the half of the shares that have been sold, resulting in a negative response when the stock price rises and a positive response when the stock falls. On the other hand, a prevention orientation will lead investors to focus on the half of the shares that have been held, resulting in a positive response when the stock price rises and a negative response when the stock falls.

To manipulate respondents’ regulatory goal orientation in a way that would be relevant to our business student subject pool, we sought scenarios that would vividly evoke a motivational
state that was either designed to elicit an orientation toward advancement and aspirations or toward duties and obligations (Higgins 1997). Additionally, as a way of strengthening the manipulation, we simultaneously sought to tap into respondents’ self-construals because an independent, individualist orientation has been linked with a promotion focus, whereas an interdependent, collectivist orientation has been shown to foster a prevention focus (Lee et al. 2000). Therefore, to manipulate promotion, respondents were instructed to imagine investing money to raise funds for a sailing vacation planned as a post-graduation indulgence. To manipulate prevention, participants were to imagine maintaining an investment portfolio as the financial officer who is responsible for the funds of a campus organization.

Pretest. Because the regulatory focus framework (Higgins, Shah, and Friedman 1997) predicts that the successful (failed) attainment of a promotion goal will lead to emotions related to cheerfulness (dejection) and that the successful (failed) attainment of a prevention goal will lead to emotions related to quiescence (agitation), we assessed whether our scenarios would invoke such emotional consequences in a pretest as a way of testing the validity of our manipulation of the construct. To this end, 44 business students were randomly assigned to one of four conditions: (1) successful investment for sailing vacation, (2) unsuccessful investment for sailing vacation, (3) successful investment for a campus organization, (4) unsuccessful investment for a campus organization. Participants then rated how they might feel given a positive or negative investment outcome. Each questionnaire featured two cheerfulness-dejection related items (e.g. cheerful, depressed) and two quiescence-agitation related items (e.g. calm, tense) on 7-point scales that were relevant to the outcome.

An ANOVA provided support for our key assumptions about our manipulations. Participants who were asked to imagine investment success or failure for a sailing vacation rated
cheerfulness-dejection emotions higher ($M = 4.48$) than quiescence-agitation emotions ($M = 3.19$, $F(1, 42) = 10.00, p < .003$). Participants who were asked to imagine investment success or failure for a campus organization rated quiescence-agitation emotions higher ($M = 3.31$) than cheerfulness-dejection emotions ($M = 2.35$, $F(1, 42) = 4.38, p < .04$).

These results parallel those observed in Higgins, Shah, and Friedman (1997) and provided confidence that our operationalization adequately embodies the self-regulatory orientation construct. Based on these operationalizations, we developed financial investment scenarios to manipulate our research participants’ regulatory goal orientation for our study.

Method

Participants. Sixty-five undergraduate business students enrolled in a marketing course at a midwestern university were solicited to participate in a short survey about their reactions to a stock market investing scenario. Students in this sample were juniors and seniors and had a range of investing experience. The exercise was to serve as the basis for future class discussion. Data of five respondents were missing on some measures, leading to a usable sample of 60.

Procedure. Each participant read a brief scenario involving a stock investment situation in which the participant was asked to imagine having bought 100 shares of a stock. Half the participants were told that they had bought the stock in order to raise enough money to take a Greek island cruise after graduation. As in the pre-test, because the scenario described imagined actions to achieve growth and obtain an “ideal” state, this was believed to invoke a promotion goal orientation (Higgins 1997). The rest of the respondents were told that they had bought the stock as the financial officer of a campus club and wanted to make a return on the club’s funds that was no worse than that which was offered at the bank. Consistent with the pre-test, because
the scenario described imagined actions to maintain security and obtain an “ought” state, this was believed to invoke a prevention goal orientation (Higgins 1997).

The scenario unfolded such that respondents were told that this investment had increased in value. Research participants were then told that after receiving some ambiguous news about the company, a newly announced strategic alliance, they were considering what to do with the stock: either selling the stock or maintaining the stock. The respondents were then told that due to the ambiguity of the news, they sold half and maintained half their investment.

Participants were told that the price of the stock either went up or down on the next day. Therefore, the overall design of this experiment was a 2 (regulatory orientation: promotion goal/prevention goal) \( \times \) 2 (next-day stock price: up/down) between-subjects factorial.

Respondents were then asked to rate their reactions on five 7-point scales that were anchored with the following dimensions: happy-unhappy, satisfied-unsatisfied, fortunate-unfortunate, timely-hasty, and lucky-unlucky. These dimensions were thought to capture immediate, gut-level responses. On the next page, participants were asked to evaluate specifically “the shares you kept” or “the shares you sold” to be used as manipulation checks.

As a way of further testing whether respondents selectively focused on either the shares that were maintained or the shares that were sold, we elicited thought listings. We reasoned that the contents of participants’ thoughts could be a source of corroborating evidence that selling or holding was the locus of attention. Therefore, after participants read the scenario and gave their affective responses, they were asked to “list the first three thoughts that came to mind” with regard to the investment scenario. No other instruction was provided with regard to this task, and students had as much time as they needed to complete their listings.
Finally, research participants were asked to respond to several measures that could serve as potential covariates. These measures included demographic data (age, sex, year and major in school), as well as several questions about the respondents’ experience with stock investing and their inclination to observe market activity.

**Analysis and Results**

Data from Experiment 2 were subjected to a full-factorial analysis of variance. None of the covariates were significant and were therefore excluded from the analysis.

*Manipulation Checks.* Although investing expertise was not a necessary precondition, the nature of the operationalization was such that some basic understanding of the consequences of selling and maintaining stock was necessary. This was a concern given that our sample consisted of undergraduate students. Therefore, two questions were posed after the main affective measures were taken to check whether participants were appropriately aware of the consequences of the scenario being described.

The results show that the situation being described was, in fact, understood. Responses to a question eliciting the respondent’s evaluation specifically of the next-day performance of the shares that had been held was shown to be significantly different according to whether the next-day stock price went up or down ($F(1, 58) = 16.13, p < .0001$), demonstrating that respondents understood that maintaining half of their original investment subjected them to price changes. Respondents in the next-day stock up condition reported positive evaluations of the stock they maintained ($M = 4.81$), while those in the next-day stock down condition reported negative evaluations of the stock they held ($M = 3.47$).

Likewise, responses to a second question eliciting the respondent’s evaluation specifically of the next-day performance of the shares that had been sold was also shown to be
significantly different according to whether the next-day stock price went up or down \( (F(1, 58) = 30.61, p < .0001) \), again demonstrating that respondents understood that the shares they sold were no longer subject to price changes. Respondents in the next-day stock down condition reported positive evaluations of the stock they sold \( (M = 4.63) \), while those in the next-day stock up condition reported negative evaluations of the stock they sold \( (M = 2.84) \). These manipulation checks indicate that respondents were aware of the consequences described in the scenario presented to them and that their responses to the main dependent measures were based on an accurate understanding of the experimental instructions. In addition, we found that 51.0% of research participants said they had had some experience buying and selling stocks, and 79.6% reported that they observe stock market trading activity at least occasionally.

*Response.* Respondents were asked to evaluate how they felt about the investment outcome on the 7-point scale items. A factor analysis revealed that these items loaded on to a single factor that was reliable \( (\alpha = .84) \). Thus, an evaluation score was computed for each respondent by averaging the responses to the five items such that higher scores indicate more positive responses. Figure 2 presents the results for this average response score, categorized by the independent variables.

An analysis of variance yielded a significant two-way interaction \( (F(1, 56) = 8.31, p < .01) \). The pattern of results indicated that participants whose regulatory focus was prevention (financial officer of campus club) were more positive when they were told that the stock price subsequently rose \( (M = 4.49) \) than participants who were told that the stock price subsequently dropped \( (M = 3.76; F(1, 56) = 3.84, p < .05) \). However, participants whose regulatory focus was
promotion (sailing trip) were more positive when they saw their stock price drop ($M = 4.54$) than those who were told that their stock price rose ($M = 3.77$; $F(1, 56) = 3.95, p < .05$).

These results indicate that promotion-oriented investors have reactions that suggest the shares that had been sold were the locus of attention. These respondents registered negative responses when their overall portfolio actually increased in value, while exhibiting positive responses when their portfolio decreased overall. This is most plausibly explained by the tendency of the promotion-oriented respondents to focus on the change – the fate of the shares they sold. When the stock price drops, thoughts of the timeliness of the move spring to mind and a positive reaction makes sense. When the stock price rises, thoughts of poor timing haunt the investor and a negative reaction makes sense. The prevention-oriented individuals, on the other hand, responded in a way that reflected a focus on the status quo – the shares that were maintained. When the stock price drops, thoughts of poor timing provoke a negative reaction. When the stock price rises, thoughts of timeliness elicit a positive reaction.

Thought Listings. A content analysis of thoughts was conducted to corroborate our hypothesis that promotion-oriented individuals would attend more to the act of selling shares and that prevention-oriented individuals would dwell more on the act of holding shares. We reasoned that participants who had thoughts about the shares they sold could be interpreted as focusing more on selling, whereas participants who had thoughts about the shares they held could be interpreted as focusing more on maintaining. Two judges who were blind to the experimental conditions coded the 171 thoughts (an average of 2.85 thoughts per respondent) for references to the shares that were sold or held as the source of positive or negative affect. Inter-rater consistency was about 95%; disagreements were resolved through discussion. Thoughts that were not coded as selling or holding referred to affective reactions (e.g. “sad,” “I am a stock
market god,” “smart and safe”), investing tactics (e.g. “good way to distribute risk,” “maybe do
more research next time”), and rationalizing comments (e.g. “it will go back up,” “that’s life –
still made money overall,” “stock market is not going to make anyone fast, worry-free money”).

On average, there was no difference in the total number of combined selling-related and
holding-related thoughts per respondent by regulatory orientation ($M_{promotion} = .412$ vs. $M_{prevention}
= .395, F < 1$) or by valence ($M_{StockUp} = .437$ vs. $M_{StockDown} = .370, F < 1$). An analysis of
variance found a significant main effect for regulatory focus on the number of selling thoughts
versus holding thoughts listed. Those in the promotion condition listed significantly more
selling-focused thoughts ($M = .4$) than those in the prevention condition ($M = .08; F(1, 58) =
27.32, p < .0001), Those in the prevention condition listed significantly more holding-focused
thoughts ($M = .44$) than those in the promotion condition ($M = .07; F(1, 58) = 37.30, p < .0001). The results are presented in figure 3.

Thoughts of promotion-oriented participants mentioned the sale of shares in statements
such as: “hasty – why did you sell so soon?” (the next-day stock up condition) and “relieved that
I sold half” (the next-day stock down condition). Thoughts of prevention-oriented participants
mentioned the holding of shares in statements such as these: “I'm happy for holding onto half the
stock I didn't sell” (the next-day stock up condition) and “disappointed because I lost $ on those I
held” (the next-day stock down condition).

Discussion

We conclude that because promotion-oriented individuals exhibited a positive response
when the share price dropped and a negative response when the share price rose, they were
apparently focused on the shares they sold rather than the shares they held. Likewise, because the prevention-oriented individuals exhibited a negative response when the share price dropped and a positive response when the share price rose, they were apparently focused on the shares they maintained rather than the shares they sold. Therefore, we construe this pattern of findings as evidence for our hypothesis that a promotion orientation fosters attention to change, or new action, whereas a prevention orientation fosters attention to the preservation of the status quo.

Furthermore, when we analyzed thought listings, we found that respondents had more selling-focused thoughts when a promotion focus was activated and more holding-focused thoughts when a prevention focus was activated. This suggests additional support that the locus of attention is as hypothesized. In addition, we found no treatment effect on the total number of combined selling- and holding-focused thoughts, suggesting that manipulating a sailing vacation scenario or a financial responsibility scenario does not elicit differential availability of thoughts nor does manipulating the valence of the next-day stock price.

Experiment 3 was conducted to test whether inducing research participants specifically to focus on the half of the shares they held or sold would produce the same results as manipulating respondents’ goal orientation. In testing for a convergent pattern of responses, we sought to test whether the purported mechanism described in Experiments 1 and 2 could be operationalized more literally and still produce the same pattern of evaluations.

One weakness of Experiments 1 and 2 may be the fact that business students who do not widely gamble or invest were employed as research participants. Because the aim of the first two studies was to test how an individual might respond in a situation in which theoretical variables related to hedging strategies are manipulated, we believe the use of student respondents is appropriate as the basis for our inferences. We also believe that our student sample is not a naïve
participant pool because most students reported having some acquaintance with gambling and the financial markets. Nevertheless, we also assessed our effects by soliciting responses from a more heterogeneous sample of randomly intercepted business travelers in several U.S. airports.

**EXPERIMENT 3**

To demonstrate that the process behind the pattern of affective reactions in an investing context involves selective attention to either selling half one’s shares or maintaining half one’s shares, situations that would lead to shifts in the locus of attention were manipulated. To this end, a strategic investment inclination and then a sudden change in strategy were described to participants. Respondents were then asked for their reactions to the subsequent result. Therefore, the abrupt shift, selling or maintaining at the last minute, became the locus of attention.

We asked participants to imagine a scenario in which they sell half and maintain half their shares in a technology company after an ambiguous news announcement. Two factors were manipulated. One was respondents’ last-minute shift to hold or sell half their shares, contrary to their prior inclination to hold or sell all the stock before the announcement. We also varied whether the next day’s stock price rose or fell, as in Experiment 2.

**Method**

**Participants.** Research respondents at several U.S. airports, including Chicago’s O’Hare Airport, New York’s LaGuardia Airport, Cleveland’s Hopkins Airport, and Pittsburgh International Airport, were randomly recruited to fill out a survey about their attitudes toward stock investing. Individuals were given a candy bar as a token of appreciation after they completed the surveys. In total, 227 adults participated (100 women), ranging in age from 18 to 72. Each participant was randomly assigned to conditions. The participation rate was about 75%.
Procedure. Each respondent read a brief scenario involving a stock investment situation in which the participant was asked to imagine having bought 100 shares of a stock of a company six months ago with the expectation of eventually selling the stock or holding the stock. The scenario unfolded such that this investment had increased in value. Respondents were then told that after receiving some ambiguous news about the company, a newly announced strategic alliance, they were considering whether they should revise their strategy: either selling when they had expected to hold, or holding the stock when they had expected to sell.

The respondents who were told that they had expected to hold were then told that they had decided – at the last minute – to sell half their shares. Likewise, those who had been told that they had expected to sell were told that they had decided – at the last minute – to hold half their shares. The locus of attention, then, was the last-minute decision taken, an update of their previous strategy. Then, half the participants in each condition were told that the stock price either went up or down the next day, as in Experiment 2. Therefore, the design was a 2 (locus of attention: selling half/holding half) × 2 (next-day stock price: up/down) factorial design.

Research participants were then asked to rate their reactions, as in Experiment 2.

Analysis and Results

Data from Experiment 3 were subjected to a full-factorial analysis of variance. None of the covariates were significant and were therefore excluded from the analysis.

Response. Respondents were asked to evaluate how they felt about the investment outcome on five 7-point scale items. A factor analysis revealed that these items loaded on to a single factor that was reliable (α = .85). Thus, an evaluation score was computed for each respondent by averaging the responses to the five items such that higher scores indicate more positive responses. Figure 4 presents the results for this average response score.
An analysis of variance found a significant two-way interaction ($F(1, 223) = 11.49, p < .001$). The pattern of results indicated that respondents were more positive when they were told that they had sold half their stock at the last minute and that the stock price subsequently dropped ($M = 4.46$) than participants who were told that they had sold half their stock and the stock price subsequently rose ($M = 3.89; F(1, 223) = 7.00, p < .01$). On the other hand, participants who were told they had decided to hold their stock at the last minute and saw their stock price rise indicated that they were more positive ($M = 4.44$) than those who were told that they had decided to hold and saw their stock price drop ($M = 4.01; F(1, 223) = 4.56, p < .03$).

Discussion

These results suggest that when holding the stock was the prior strategy, respondents who were told that they sold half their shares at the last minute reacted positively when told the stock price dropped the next day. Even though they were told they maintained half their stake and were aware that this portion lost value, they felt positive. This effect was due to their focus on the shares that were sold. Inversely, when they were told the stock price rose the next day, respondents felt negative. This result, too, was caused by a focus on the shares they sold.

When the prior strategy was selling the stock and investors held half their shares at the last minute, respondents indicated a positive reaction when the next-day stock price went up but a negative one when the next-day price dropped. Presumably, the participants responded accordingly because their focus was on the shares they held.

Overall, the results of Experiment 3 support our interpretation of Experiments 1 and 2. These data corroborate the hypothesis that participants with a promotion orientation were
focusing on the shares they sold. When participants were told to imagine selling half their shares at the last minute and then saw that the stock price had risen or had fallen, selling the shares and the subsequent perceived loss or gain drove the affective response, which is similar to the response of promotion-oriented participants in Experiment 2. We interpret these results as further evidence that participants with a prevention orientation were focusing on the shares they held. When participants were told to imagine holding half their shares at the last minute and then saw that the stock price had risen or had fallen, the fate of the held shares and the subsequent perceived gain or loss drove the affective response, which is similar to the response of prevention-oriented participants in Experiment 2.

The first three studies suggest that a promotion orientation fosters attention to the change component of a hedging strategy even though the status quo component is also relevant to the overall outcome. Likewise, a prevention orientation fosters attention to the status quo component even though the change component is relevant. Our interpretation is that individuals, guided by their regulatory orientation, focus on one component but ignore the other. Experiment 4 explores the extent to which people pay attention to the component that is compatible with their orientation as well as the extent to which they ignore what is incompatible.

The experimental constraints in the first three studies were such that respondents were to assume participation in a hedging strategy and not asked about their preferences. Therefore, Experiment 4 was designed to measure investors’ inclinations and test whether the effects we observe drive behavior intention. As established by Liberman et al. (1999), would promotion-oriented investors exhibit a consistent choice preference for change, or selling shares, relative to prevention-oriented investors, and would prevention-oriented investors exhibit a consistent choice preference for the status quo, or holding shares, relative to promotion-oriented investors?
Because our context is a financial one, we speculated that pragmatic economic values should hold sway. Investors, regardless of their regulatory tendency, should desire to sell when they believe the price may fall but desire to hold when they believe the price may rise. On the other hand, we also surmised that if regulatory focus selectively directs attention to change versus status quo, regulatory orientation might moderate an investor’s preference for selling versus holding. Therefore, we predicted that investors would exhibit greater sensitivity to expectations in a hold decision under a prevention focus (versus a promotion focus) and greater sensitivity to expectations in a sell decision under a promotion focus (versus a prevention focus). These hypotheses are guided by our findings that an investor’s regulatory focus directs attention to either holding (status quo) or selling (change). We reasoned that this heightened attention does not necessarily lead to a regulatory focus-consistent preference for selling or holding, as Liberman et al. (1999) found, but leads to greater sensitivity to a stock’s performance expectations when the decision is framed in a way that resonates with the investor’s regulatory focus. Therefore, we expect that prevention-oriented investors (but not promotion-oriented investors) who are given the option to hold have a greater tendency to hold when the price is expected to rise than when it is expected to drop. Likewise, we expect that promotion-oriented investors (but not prevention-oriented investors) who are given the option to sell have a greater tendency to sell when the price is expected to drop than when it is expected to rise.

EXPERIMENT 4

Method

Participants. One hundred-twenty-two undergraduate business students enrolled in a consumer behavior course at a western university were required to fill out a short survey about their reactions to a stock market investing scenario. The survey results were to serve as the basis
for class discussion. Data of five respondents were missing on one measure, leading to a usable sample of 117 on the first dependent measure; on the second dependent measure, data of four respondents were missing, leading to a usable sample of 118.

Procedure. Each participant read a brief scenario involving a situation in which the participant was asked to imagine having an investment of stock. Half the participants were told that they had bought the stock in order to raise enough money to take an island cruise after graduation. Since the scenario described imagined actions toward achieving a positive outcome, this was believed to invoke a promotion goal focus, similar to Experiment 2. The rest of the respondents were told that they had bought the stock as the financial officer of a campus club and wanted to make a return on the club’s funds that was no worse than that which was offered at the bank. Since the scenario described imagined actions toward avoiding a negative outcome, this was believed to invoke a prevention goal focus, also similar to Experiment 2.

Research participants were then told that economic indicators signaled that the stock was thought to be on the verge of a modest rise or on the verge of a modest drop. Therefore, the overall design of this experiment was a 2 (regulatory orientation: prevention goal/promotion goal) × 2 (stock price expectation: increase/decrease) between-subjects factorial design.

Research participants were then asked to answer questions about their likelihood of engaging in the following actions: whether they would hold their shares and whether they would sell their shares. Holding shares was conceived of as consistent with maintaining the status quo, whereas selling was conceived of as consistent with change, as in Experiment 2. It must be noted that holding and selling are, in fact, inverses. It might be assumed that if a respondent reports he is unlikely to hold, he should be likely to sell. Likewise, a participant who reports he is unlikely to sell should be likely to hold. However, we anticipate that preferences will be asymmetric with
respect to the mode of response; that is, we expect promotion-oriented (prevention-oriented) participants to respond with greater discrimination to questions about selling (holding).

Results and Discussion

Data from Experiment 4 were subjected to a full-factorial analysis of covariance. Because the students in this sample ranged from freshmen to seniors, students’ year in school was thought to be a relevant factor that could be a proxy for experience. Therefore, year in school was used as a covariate in the analysis.

Responses. After reading the stock scenario, respondents evaluated their preferences for action on three 4-point scales (1=extremely unlikely, 2=somewhat unlikely, 3=somewhat likely, 4=extremely likely). The first dependent variable was a question that asked whether the respondent would sell the shares. The second asked whether the respondent would hold the shares. Figure 5 presents the results for these two dependent measures.

An analysis of variance yielded a significant main effect of expectations ($F(1, 112) = 21.80, p < .0001$) such that respondents were significantly more likely to hold their shares when they expected the stock price to rise than when they expected the stock price to fall. This main effect is qualified by a significant two-way interaction ($F(1, 112) = 6.11, p < .01$) of regulatory orientation and stock performance expectation on the question about how likely would respondents be to hold their shares. Prevention-oriented respondents were significantly more likely to hold when the stock price was expected to rise ($M_{\text{rise}} = 2.87$) than when the stock price was expected to fall ($M_{\text{fall}} = 1.79; F(1, 112) = 26.23, p < .0001$). Promotion-oriented respondents, on the other hand, did not show a significantly greater proclivity to hold in either case ($M_{\text{rise}} = 2.37$ vs.
$M_{\text{Fall}} = 2.03; F(1, 112) = 2.39, p > .13)$. This suggests that individuals who have a prevention orientation are more sensitive to cues about performance expectations when asked about holding their stock. Promotion-oriented individuals, however, when asked about holding, do not reflect the same responsiveness. Furthermore, we find evidence that a prevention orientation does not lead to a consistent preference for status quo. When prevention-oriented investors are asked about holding when they believe the stock is about to drop, they are no more likely to hold ($M = 1.79$) than promotion-oriented investors ($M = 2.03; F(1, 112) = 1.24, p > .27$). Rather, we observe greater discrimination about holding among prevention-oriented investors such that investors seem to be drawing a firmer distinction between stocks that are expected to rise or fall.

The second dependent measure, the question about how likely would respondents be to sell their shares, also yielded a significant main effect of expectations ($F(1, 113) = 10.58, p < .01$) such that respondents were significantly more likely to sell their shares when they expected the stock price to fall than when they expected the stock price to rise. This main effect is qualified by a significant two-way interaction ($F(1, 113) = 5.54, p < .05$) of regulatory orientation and stock performance expectation on the question about how likely would respondents be to sell their shares. Promotion-oriented respondents were significantly more likely to sell when the stock price was expected to fall ($M = 1.83$) than when the stock price was expected to rise ($M = 1.15; F(1, 113) = 15.17, p < .001$). Prevention-oriented respondents, on the other hand, did not show a significantly greater proclivity to sell in either case ($M_{\text{Rise}} = 1.52$ vs. $M_{\text{Fall}} = 1.63; F(1, 113) < 1$). This suggests that individuals who have a promotion focus are more sensitive to cues about performance expectations when asked about selling their stock. Prevention-focused individuals, however, when asked about selling do not reflect the same responsiveness. Furthermore, we find evidence that a promotion orientation does not lead to a
consistent preference for change relative to a prevention orientation. When promotion-focused investors are asked about selling when they believe the stock is about to rise, they are significantly less likely ($M = 1.15$) to sell than prevention-focused investors ($M = 1.52$; $F(1, 113) = 4.29, p < .05$). Rather, we observe greater discrimination about selling among promotion-focused investors such that investors seem to be significantly more likely to sell when stocks are expected to fall and significantly less likely to sell when stocks are expected to rise.

These results suggest implications for the theorizing proposed by Liberman et al. (1999). According to their results, promotion fosters a greater preference for change whereas prevention fosters a greater preference for the status quo. However, our evidence qualifies this finding. We find that when it is sensible not to sell, promotion-oriented investors are no more inclined to sell than their prevention-oriented counterparts. When it makes sense not to hold, prevention-oriented investors are no more inclined to hold than their promotion-oriented counterparts. This pattern of data suggests that regulatory orientation may be activating attention in a way that promotes greater sensitivity to selling (change) or holding (status quo), not merely eliciting a preference for change or status quo.

**GENERAL DISCUSSION**

The current research is an effort to break ground in the realm of understanding reactions to hedging decisions. The data from four experiments suggest that the nature of individuals’ goals drives diverse affective reactions to hedging outcomes due to distinct loci of attention. We present evidence that manipulating a prevention focus fosters selective attention to the status quo component, thereby guiding individuals’ evaluations of hedging outcomes. We also find that manipulating a promotion focus fosters selective attention to the change component, again impacting how the outcome is evaluated. According to regulatory focus theory, prevention
concerns are safety and security, whereas promotion concerns are advancement and accomplishment (Higgins 1997, 1998). In order to ensure the goal of safety and security, the prevention-focused individual must be vigilant to maintain the status quo. Likewise, because a promotion orientation compels eagerness to advance, change necessarily draws attention. Therefore, our interpretation that self-regulatory orientation drives the shift in locus of attention, as hypothesized, is compatible with extant theorizing.

Two situations were investigated as a way of testing the explanation advanced here: (1) a gambling scenario in which respondents’ satisfaction with the victory of an old favorite was compared to satisfaction with the victory of a new entrant when bets were hedging between the two, and (2) an investment scenario in which respondents’ reactions to the next-day performance of a stock after a sell-half-hold-half decision were analyzed. Consistent with our hypotheses, we found that inducing participants with a promotion (prevention) orientation elicited more favorable reactions to hedging outcomes when the change (status quo) component performed better (Experiments 1-2). Cognitive response data from Experiment 2 corroborate the interpretation that the results were driven by distinct loci of attention. As a way to obtain convergence, we directly manipulated locus of attention and observed a pattern of results that is consistent with the data from the first two experiments, lending support to our account (Experiment 3). Finally, also consistent with our predictions, we found that framing a question in terms of respondents’ likelihood of choosing change (status quo) created more discerning responses among promotion-oriented (prevention-oriented) participants (Experiment 4).

The current research establishes the robustness of our results by the use of multiple operationalizations of regulatory orientation. In Experiment 1, we use a priming task to activate a promotion (prevention) orientation by asking participants to write about their ambitions and
aspirations (duties and obligations). In Experiments 2 and 4, we embed the prime within the context of the manipulation by asking participants to consider a promotion goal (saving for a post-graduation sailing vacation) or a prevention goal (managing the funds for a campus organization). We also conceptualize status quo and change with multiple operationalizations. In the racetrack scenario in Experiment 1, we operationalize status quo as a known favorite and change as a new entrant. In the investment scenarios, status quo is represented by maintaining shares and change is operationalized by selling shares. Besides robustness, using multiple operationalizations of our constructs affords an opportunity for enhancing construct validity.

Our findings are of substantive importance as well as theoretical interest. The current work proposes an explanation for a variety of reactions to hedging outcomes and suggests that people interpret identical outcomes according to their goals and motivation, not the objective value of their assets. Furthermore, we show that our effects are not limited to the measurement of affect and judgment. We find that these effects influence behavioral intentions (Experiment 4).

In advancing theory, we suggest that prior work must be qualified. We apply our findings to those of Liberman et al. (1999) by showing that promotion-oriented investors exhibit a more acute sensitivity toward options invoking change, while prevention-oriented investors exhibit a more acute sensitivity toward options invoking status quo. As we find, when it behooves promotion-oriented investors not to sell, they are no more inclined to sell than investors with a prevention orientation. By the same token, when it makes sense for prevention-oriented investors not to hold, they are no more inclined to hold than investors with a promotion orientation. This suggests that regulatory focus activates attention in a way that promotes greater discrimination and deeper processing, not merely an expression of preference for change or for the status quo, as suggested by prior research. The pattern of the data supports this processing explanation.
We argue that our findings extend previous work by testing whether regulatory focus not only elicits a preference for change or for status quo but also whether it elicits a different locus of attention. Although it is well established that regulatory goal orientation affects how the valence of information is attended (Higgins 1997), there has been no evidence until now that a promotion orientation drives individuals to focus on change or that a prevention orientation leads attention to status quo options. Whereas observing preference provides an understanding of the consequences of shifts in regulatory orientation, examining what is the locus of attention offers a deeper, process-level insight, which is one of the contributions of the present work.

LIMITATIONS AND FUTURE RESEARCH

This current research provides an explanatory model for understanding an individual’s response to a hedging outcome. One limitation of this research is that because many firms undertake hedging strategies as a matter of corporate policy, the manager’s individual decision reaction may have limited consequences on the firm’s behavior (although Smith and Stulz (1985) and Stulz (1984) make the argument that corporate hedging is an outgrowth of managers’ risk aversion). Future research that examines empirical evidence of how firm’s react to hedging decisions would be useful to explore the macro-level response function.

Researchers have only begun to explore the explanatory power of the regulatory goal focus framework in economic contexts (e.g. Higgins et al. 2003; Zhou and Pham 2004). The current research is the first investigation of the role of self-regulatory goal focus in evaluating economic outcomes in the domain of hedging strategies. It may be argued that the current conceptualization of hedging (i.e. a strategy consisting of a status quo component and a change component) is too narrowly defined. Future research that conceptualizes hedging strategies in other ways could deepen our perspective and provide additional insight.
Beyond the specific financial context explored in this research, we speculate that the explanatory value of the regulatory goal focus framework on individuals’ attention to status quo and change has implications for other consumer contexts. The question of how a motivational orientation affects attention to status quo or change is potentially relevant to a variety of other settings besides hedging. For instance, the consumer whose automobile lease is expiring might evaluate the car’s residual value differently depending upon whether a prevention orientation were dominant (leading to a focus on information related to maintaining the vehicle) or a promotion orientation were dominant (leading to a focus on information related to trading in the vehicle). Although these decisions are substantively equivalent, a consumer’s orientation may affect how much weight certain kinds of information have when a decision is ultimately made.

Regulatory goal orientation should also play a role in determining whether consumers are more inclined to exhibit brand or product loyalty (status quo) or whether they engage in variety-seeking behavior (change). We predict that consumers’ tendencies to engage in variety-seeking or brand loyalty would be driven by the manner in which consumers assess their post-consumption experiences, as guided by their regulatory orientations.

Finally, the managerial challenge for practitioners who promote hedging strategies is to encourage investors to view the strategy as a whole rather than to focus on only one of the components, which is the tendency, according to the results presented here. The proclivity to dwell on only one component of a hedging outcome *ex post* overshadows the benefit provided by the hedge, which is an *ex ante* measure to reduce risk. Therefore, further research investigating the potential for inducing a more holistic view could be of practical importance. In this regard, variables such as involvement, expertise, accountability and time horizon may be explored as factors that could potentially lead to a correction of the effects observed in the current work.
REFERENCES


FIGURE 1

Satisfaction

Winning Racehorse

Note. Higher numbers imply more positive response.
FIGURE 2

Next Day Stock Move

Note. Higher numbers imply more positive response.
FIGURE 3

Number of thoughts

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Locus of Attention
FIGURE 4

Next Day Stock Move
FIGURE 5

Would you hold your shares?

Would you sell your shares?