



The Worst, the Best, Ignoring All the Rest: The Rank Effect and Trading Behavior

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I document a new stylized fact about how investors trade assets: individuals are more likely to sell the extreme winning and extreme losing positions in their portfolio ("the rank effect"). This effect is not driven by firm-specific information or the level of returns itself, but is associated with the salience of extreme portfolio positions. The rank effect is exhibited by both retail traders and mutual fund managers, and is large enough to induce significant price reversals in stocks of up to 160 basis points per month. The effect indicates that trades in a given stock depend on what else is in an investor's portfolio.

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