

## **The willingness to accommodate small losses for worthy structured gains - experimental evidence**

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A computerized experiment is designed to characterize the valuation of retail-oriented structured deposits in light of Cumulative Prospect Theory under uncertainty (henceforth: CPT). Yearly framed-field deposits are constructed in a two-stage process where subjective expectations regarding FTSE's performance in the 12 months following the experiment are elicited first, and then used to design individually-tailored uncertain deposits building on FTSE as the underlying. At the first stage, the bisection algorithm is used to elicit median, lower, and upper quartile assessments for the FTSE return in the investment period. At the second stage, each subject evaluates 20 structured deposits, where the exact terms of each deposit are derived from the forecast statistics elicited earlier. Again, an iterative binary-choice algorithm is applied to elicit the certainty equivalent of each deposit. The 20 deposits are constructed in 10 pairs to open possibility for testing the main assumptions of CPT directly; e.g., testing loss aversion by comparing the certainty equivalents of (8% or -2%) and (6% or 0%) deposits. Beyond the paired comparisons, CPT is estimated on individual basis to characterize the demand for limited-loss structured deposits formally. The analysis robustly reveals that basic ingredients of Prospect Theory such as gain-loss reflection and universal loss aversion are violated in the valuation of such retail-oriented deposits. Similar results emerge in a follow-up study where the uncertain deposits are replaced with risky versions, using a framed-field yearly investment context as in the original experiments. The results of the two experiments are discussed in light of the literature on context-dependent preferences and accumulating recent evidence on the limited reach of loss aversion.