The Trader Curriculum

This Week's Preview: Small Accounts & the Measurement Problem

---

The Research Behind This

Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. Econometrica, 47(3), 263–291.

The psychological value of a gain isn't linear — it flattens out as numbers get smaller relative to your reference point.

Shefrin, H., & Statman, M. (1985). The disposition to sell winners too early and ride losers too long: Theory and evidence. The Journal of Finance, 40(3), 777–790.

Introduces the disposition effect — the tendency to sell winners early and hold losers too long — and its psychological drivers.

Thaler, R. H. (1985). Mental accounting and consumer choice. Marketing Science, 4(3), 199–214.

People value money differently depending on its source and the mental "account" it's assigned to.

Thaler, R. H., & Johnson, E. J. (1990). Gambling with the house money and trying to break even: The effects of prior outcomes on risky choice. Management Science, 36(6), 643–660.

Origin of the "house money effect" — unrealized gains feel less real, which loosens risk control.

Odean, T. (1998). Are investors reluctant to realize their losses? The Journal of Finance, 53(5), 1775–1798.

Large-sample brokerage data confirming the disposition effect in real trading behavior.

Dan, K. (2025). The role of mental accounting in risk-taking and spending: A meta-analysis of the house-money effect. Frontiers in Psychology.

Recent meta-analysis confirming a real, if variable, house-money effect across 36 studies.

Richards, D. (Bayes Business School). Do stop losses work? The disposition effect, stop losses and behavioural biases in UK retail investors.

Mechanical stop-loss use and trading experience both reduce disposition-effect bias in UK investors.

Tharp, V. K. Trade Your Way to Financial Freedom and The Definitive Guide to Position Sizing Strategies.

Practitioner framework (not peer-reviewed) introducing the R-multiple — measuring trades as multiples of risk instead of raw dollars.

Try This on Your Own Trades

Exercise: Convert Your Last 20 Trades to R

Pull your last 20 closed trades. For each one, calculate R, your initial risk from entry to stop. Then express each trade's outcome as a multiple of that risk (R-multiple) instead of a dollar figure. Notice which trades you're actually proud of once you stop looking at the raw number.

Want the rest of this week's training drills, the 7-day journal challenge, and the full member discussion? That's inside The Market Alchemists.

Compiled for The Trader Curriculum - August 9th