

## **To Trade, or Not To Trade: A Model of Regret and Investment**

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**Abstract:** This paper examines the effect of regret on investment in a market where investors, who face the tradeoff between the expected utility of investment return and the expected disutility of regret, can choose to trade, or not to trade, an asset with uncertain value. When the market price of the asset is moderate, investors take positions according to their private information. If the price becomes very high or very low, some investors will ignore their own information and do not trade. In case the price is extremely high or extremely low, regret aversion has such a strong effect that a cascade will occur in the market.

JEL classification: G02; G01; G12

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