

Abstract: This study examines whether heterogeneous beliefs contribute to the incidence of the disposition effect. We measure individuals' optimism using elicited beliefs from incentivized experiments and surveys and link these measures to investment decisions using administrative register data. We find that optimistic beliefs lead to both a higher allocation of wealth to risky assets and a higher incidence of the disposition effect. We further find that subjective beliefs and beliefs in mean reversion explain heterogeneity in the disposition effect which are not captured by risk preferences. Overall, our study documents that individuals' beliefs play an important role in the prevalence of the disposition effect.