

The Loss Aversion Checklist: 5 Rules to Bulletproof Your DeFi Portfolio

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The Problem: Research shows that the pain of a loss is psychologically twice as powerful as the pleasure of a gain. In DeFi, this leads to "**Behavioral Liquidation**": holding losing bags too long (hoping they recover) or panic-selling during a dip.

The Solution: Use this checklist to engage your logical "System 2" brain *before* you open a trade.

✓ Rule #1: The Pre-Commitment Protocol

- **Define Your Exit (Win):** I will sell % of my position if the price hits \$.
- **Define Your Exit (Loss):** I will sell 100% of my position if the price drops to \$_____.
- *Why? Pre-committing removes emotion when volatility hits, bypassing System 1 fear.*

✓ Rule #2: Frame the Volatility

- **Check the % Change, Not the \$ Value:** I am looking at the percentage move, not the dollar amount in my wallet.
- *Why? "Framing effects" can distort your perception of risk. Viewing absolute dollar losses triggers stronger panic than viewing percentage fluctuations.*

✓ Rule #3: The Sunk Cost Breaker

- **Ask the "Overnight Test":** If I didn't own this token today, would I buy it at this current price?
- *If the answer is NO, sell it.*
- *Why? You are suffering from the Sunk Cost Fallacy—holding on just because you've already invested time or money.*

✓ Rule #4: Automate "Decision Hygiene"

- **Set On-Chain Stop Losses:** I have used a protocol (like 1inch or a limit order) to automate my exit.
- *Why? Automation acts as an external "System 2" monitor, executing rational decisions when you are unable to.*

✓ Rule #5: The Availability Audit

- **Source Check:** Am I buying this because of a single viral tweet or news story?

- *Why? The "Availability Bias" makes you overestimate the likelihood of a moonshot because you saw one vivid example on social media.*