

An Analysis of Herding Behaviors in Taiwanese Stock Market

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ABSTRACT

In this paper we use daily data from January 1, 1996 to December 31, 2007 to investigate individual investors' herding behavior by the cross-sectional dispersion of systematic risk (beta) in Taiwan's stock market. The empirical results show that individual investors do have apparent herding behavior in Taiwan's stock market. We further analyze the factors which could cause the individual investors herding behavior and find that besides the stock return, the volatility of stock return, the stock turnover rate, and the foreign investor's shareholding ratio, the individuals might also adjust their investment strategies by firm size and BE/ME ratio. The stocks with smaller firm sizes reflect more significant herding behavior and there is positive herding behavior in the stocks of larger firms. In addition, the business cycle (such as the 1997 Asian financial crisis, bullish/bearish stock market), stock market liberalizations (such as the removal of Qualified Foreign Institutional Investors), and the presidential elections would also generate and affect herding behavior. It is noteworthy that there is a stronger herding behavior after the structural change of the stock market than before the structural change

Keywords : Herding Behavior、State Space Model、Behavior Finance

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