

The Determinants of Foreign Institutional Herding: Evidences from Fundamental and Technical Analyses

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ABSTRACT

This paper investigates whether foreign institutional investors in Taiwan herd towards the same stock and why they do. The results reveal that foreign institutional investors in Taiwan do herd towards the same stocks. They prefer stocks with high past returns, large size and high market-to-book ratios, which implies that foreign institutional investors are momentum traders. As for the technical indicators, moving average (MA), bias and the relative strength index (RSI) are applied, which constitute the herding indicators for foreign institutional investors. As the stock price breaks up (or down) its moving average, foreign institutional investors herd towards the stock. Such herding behavior is much more significant by using the long-term indicator, MA (250). As using the indicator of bias, foreign institutional investors herd towards the same stock with a bias value exceeding 5%. However, the magnitude of herding behavior is more significant as using the short-term indicator, BIAS (5). The stocks are also divided as strong stocks and weak stocks by using the relative strength index. As we focus on the long-term RSI, foreign institutional investors herd towards to strong stocks instead of weak stocks.

Keywords : herding behavior、fundamental analyses、technical analyses

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