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"Herding in trading by amateur and professional investors"

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Abstract:

We study herding behavior of amateur and professional investors using a unique data-set consisting of all their daily transactions during a four year period. We find herding tendencies in both types of investors, although this tendency is higher for individuals. We also explore which factors can explain herding behavior. We distinguish between features specific to the stocks, such as their systematic risk, idiosyncratic risk, and size, on the one hand, and market factors such as total stock market volume and returns on the other hand. We show that herding is affected by both types of factors; herding is a decreasing function of the size of the firm, and an increasing function of its systematic risk. We also find that herding behavior of the two groups is a persistent phenomenon, and that it is closely related to market volume, and to the volatility of market returns. Amateurs herding is weakly related to market returns. In general most of the results agree with the hypothesis that herding is information based.