Daily Institutional Trades and Stock Price Volatility in a Retail Investor Dominated Emerging Market

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Abstract

Using a unique database, we find that stock price volatility is negatively associated with the trading of better-informed institutional investors in a retail investor dominated emerging market. This negative relation is more pronounced for institutional buys than for sales; and more pronounced for small than for large stocks. Institutional buys, especially unexpected buys, are negatively associated with volatility in both up and down days; whereas unexpected sales are positively associated with volatility in down days for large stocks. Institutional investors herd in their trading but do not systematically engage in positive-feedback trading, and their herding behavior is largely limited to large stocks. Overall, we conclude that the combined impacts of information-driven and non-information-based trades determine the volatility-institutional trading relation.

JEL classification: G1, G12, G23
Key Words: Volatility; Institutional investors; Information; Herding; Clustered standard errors.

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