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Herding where retail investors dominate trading: The case of Saudi Arabia
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Abstract

We investigate herding in the Saudi stock market, where more than 95% of the total trading is initiated by the individual investors. Based on readily available stock data, we find evidence of pervasive herding among the market participants. Although herding is prevalent irrespective of market conditions, it tends to get stronger in periods when the market rises and the trading activity intensifies. Traders are found to be indifferent to important stock categories in their herd behavior. Further analysis suggests that the correlated behavior of Saudi traders is unlikely to be induced by the common movements in fundamentals. Considering the unique composition of the market clientele, we interpret these findings as constituting market level evidence supporting a commonly held belief in the literature that the individual investors are more likely to be noise traders. © 2015 The Board of Trustees of the University of Illinois.

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