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Do Locals Know Better? A Comparison of the Performance of Local and Foreign Institutional Investors

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Abstract
We compare the performance of local versus foreign institutional investors using a comprehensive data set of equity holdings in 32 countries during the 2000-2010 period. We find that foreign institutions perform as well as local institutions on average, but only domestic institutions show a trading pattern consistent with an information advantage. Our results suggest a smart-money effect of local institutions in countries subject to higher information asymmetry, non-English speaking countries, countries with less efficient stock markets, with poor investor protection, or high levels of corruption. The local advantage is more pronounced in periods of market turmoil and in illiquid stocks.

Keywords: Mutual funds; Local and foreign; Institutional investors.

1. Introduction

Financial globalization and the substantial growth of the global mutual fund industry have
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