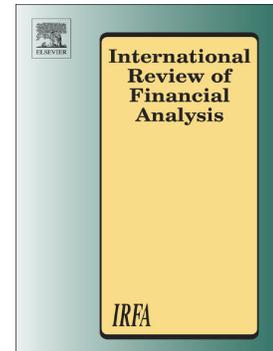


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Who exacerbates the extreme swings in the Chinese stock market?

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Who exacerbates the extreme swings in the Chinese stock market?

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Abstract

We investigate the dominant investors that buy or sell relatively more on the days when the absolute value of market returns or the daily range of market index prices exceeds 5% in the Chinese stock market. Unlike Dennis and Strickland [*Journal of Finance* 57(5): 1923-1949 (2002)] who find that institutional investors are buying (selling) more when there is a large market increase (decline) in U.S. equity markets, we find that institutional investors in China are systematically buying more than the less sophisticated individual investors during extreme market swings, particularly on extreme market-down days. We reveal that institutional investors in China (primarily pension funds), provide a stabilizing influence during market downturn days. Our findings highlight the benefits of having active institutional investors in an extremely volatile emerging market dominated by less sophisticated individual investors.

JEL classification: G11, G12, G14.

Keyword: institutional ownership, institutional trading, abnormal returns, extreme market swings

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