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Differences in Herding: Individual vs. Institutional Investors

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Abstract

Using a trading volume-based measure, we study the differences between institutional and individual investors in herding. First, better-informed institutional investors trade more selectively, whereas less-informed individuals allocate their investments evenly across stocks. Second, individual investors rely more on public information for their trades as they are influenced by market sentiment and attention-grabbing events. Third, institutional investors react asymmetrically to up- and down-market movements, whereas individual investors do not. Finally, despite these differences in herding both individual and institutional investors pay close attention to one another's trades in forming a consensus.

JEL classification: G1, G12, G23

Key Words: Herding; Individual and institutional trading volumes; Information asymmetry; Market returns.

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