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## DYNAMIC HERDING ANALYSIS IN A FRONTIER MARKET

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### ABSTRACT

We use constant coefficient and time-varying parameter approaches to examine herding in the context of a frontier market. Our sample comprises of all companies listed on the Trinidad and Tobago Stock Exchange from January 2001 to December 2014. We find significant evidence of herding across the market, which is more prominent for smaller stocks. Microstructures, including liquidity and volatility, intensify herd behavior, except for larger firms. Additional analyses show that herding is present in both up and down markets, but is stronger during rising markets. The time-varying analysis, based on a state-space Kalman filter, further establishes that herding, though quite prevalent, is not a static feature of the market but evolves throughout the sample period. Specifically, it oscillates between greater herding to anti-herd behavior, as investors identify themselves with crises and better information access respectively.

JEL Classification: G02, G12, G14, G15.

Keywords: Herding, Frontier Markets, Market Microstructures, Time-Varying Herding, Kalman Filter

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