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Abstract

The purpose of this paper is twofold: investigates how *different types* of investors affect stock return volatility, and provides some explanations based on investors' trading behavior. Norway provides an excellent setting with monthly holding data of *all* investors on *all* listed firms over a period of 15 years. The results show that foreign investors increase stock return volatility because they trade the most, are momentum traders, and have the shortest investment horizon. In contrast, individual investors reduce stock return volatility because they trade the least, are contrarian traders, and have the longest investment horizon, and domestic institutional investors fall in-between.

JEL classification: G11, G23, D12.

Keywords: stock return volatility, investor types, ownership holdings, foreign investors, individual investors, financial institutional investors

*The author is from the University College of Southeast Norway, P.O. Box 235, 3603 Kongsberg, Norway. Limei Che can be reached at Limei.Che@usn.no. I would like to thank the insightful and constructive comments and suggestions from Editor Rossen I. Valkanov and an anonymous reviewer. This paper is part of my PhD dissertation at BI Norwegian Business School. I am indebted to my supervisor Professor Øyvind Norli, and Professor Richard Priestley for their guidance and support. Comments from my committee members Professor Bruno Gerard, Matti Keloharju, and Trond Døskeland have been very helpful and are deeply appreciated. I am very grateful to Professor Terrence Odean (Sponsor professor for my visiting at UC Berkeley), Ilan Cooper, and Christian Heyerdahl-Larsen for their kind help and discussions. I am also thankful for the comments from the presentations at the Annual Conference of the Swiss Society for Financial Market Research (the 14th SGF Conference, 2011), the 2011 MFA annual meeting, the World Finance Conference 2011, the invited presentation at StateStreet global market (London, 2011), and the presentation at BI Norwegian Business School. I am grateful to the Norwegian Central Securities Depository (VPS) for providing the security ownership data.

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