



## Full length article

## Further evidence on the herd behavior in Vietnam stock market

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## ARTICLE INFO

## Article history:

Received 9 January 2017

Accepted 11 February 2017

Available online 14 February 2017

## JEL classification:

G02

G10

G12

G15

## Keywords:

Asymmetry

Herd behavior

Trading volume

Vietnam stock market

## ABSTRACT

This paper examines the presence of herd behavior in Vietnam stock market using a sample of 299 companies listed on the Ho Chi Minh City Stock Exchange covering the time period 2005–2015. The study employs the herding measures proposed by Christie and Huang (1995) and Chang et al. (2000). We provide a comprehensive analysis using daily, weekly and monthly frequency. The results indicate the evidence of herding over the whole period studied. Moreover, the results are robust when we split the data into three sub-periods including pre-crisis, during crisis and post-crisis. Asymmetric effect is also evidenced under various market conditions and trading volume.

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## 1. Introduction

Herding is defined as a convergence of behavior which means investors follow the action of others from security to security and from market to market (Choi and Skiba, 2015). The importance of examining the existence of herding arises from its impact on stock market in particular and on financial system in general. As investors make investment based on collective decision, the stock prices are driven away from their underlying fundamentals. The divergence between stock prices and their intrinsic values can result in opportunity to reap profit from arbitrage. If herd behavior lasts longer and the stock prices fail to adjust towards their fundamental values, it may lead to the great instability and inefficiency, even the collapse of financial system.

This paper sheds further light on the presence of herd behavior and the impact of global financial crisis on this phenomenon in Vietnam stock market. We also examine its asymmetric effect in terms of different market conditions, various extreme market movements and trading volume. The data sample includes daily,

weekly and monthly closing prices of 299 firms listed on the Ho Chi Minh Stock Exchange covering the period from 2005 to 2015. We employ the commonly applied cross-sectional standard deviation (CSSD) method proposed by Christie and Huang (1995) and cross-sectional absolute deviation (CSAD) method developed by Chang et al. (2000) to investigate herding in this study.

Our paper is motivated by a number of reasons. The first motivation arises from the inconclusive conclusion in existing literature about herding in emerging market in general and limited study regarding this topic in Vietnam stock market in particular. Therefore, further investigation is needed to provide a better understanding of the complete picture of herd behavior in stock markets.

The second motivation is stem from the context of an emerging market. There is a huge amount of work focusing on the presence of herd behavior in advanced countries. However, herding tends to be more pronounced in emerging markets where information asymmetry is stronger. Moreover, stock markets of some emerging countries are gradually developed and make a contribution to the global financial markets. The increasing importance of emerging markets is one of the motivations for further investigation about herd behavior in this context.

The third motivation is from the characteristics of Vietnam stock market. For more than decades from its establishment, Vietnam stock market has undergone a lot of ups and downs but

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information transparency has always been an issue. A series of violation in information disclosure, illegal transactions, and price manipulation along with the shortage of legislation framework, management of government and operation of auditing enterprise result in the lack of transparency in this equity market. Bikhchandani et al. (1992) claim that non-transparency is one of the key reasons leading to herding. Moreover, Vietnam stock market recently has gained more attention from foreign investors (Vo, 2015). With those features of Vietnam stock market, it is important and interesting to investigate the existence and prevalence of herd behavior in this emerging equity market.

A growing amount of literature has attempted to investigate the presence of herding using indirect measures by comparing return dispersion of individual stocks to market returns. Recently, Vo and Phan (2016) examine the presence of herd behavior in Vietnam stock market utilizing quantile regression analysis. The authors employ model outlined by Chang et al. (2000) with daily data set. The findings indicate that herd behavior is evident in case of market stress and no evidence is found in the higher quantile of return dispersion distribution. Moreover, the asymmetric effect of herding exists in Vietnam equity market with the prevalence of this phenomenon in down market than in up market.

In Vietnam context, this paper extends (Vo and Phan, 2016) by investigating the presence of herding and its asymmetry in different market conditions in Vietnam stock market. We employ cross-sectional standard deviation (CSSD) method proposed by Christie and Huang (1995) together with CSAD method to achieve main objectives. However, this paper differs (Vo and Phan, 2016) in a number of perspectives. Firstly, we examine the asymmetric effect of herding during extremely upward and downward market movements. Previous research on the topic in the context of Vietnam stock market is limited so our research extension helps to provide a better understanding regarding herding in different extreme market conditions. Secondly, we examine the presence of this phenomenon during global financial crisis as a separate period to clarify its nature. Global financial crisis is considered a phase of high uncertainty which is more likely to have significant impact on the existence of herd behavior. However, there is conflicting evidence of herding in this time period in Vietnam equity market; even there is not a clear division among stages of before, during and after crisis. Therefore, global financial crisis period in 2008 is detected separately to investigate its impact on herding.

This paper makes several contributions to the current literature. Firstly, to the best of our knowledge, we are among the first to provide the evidence of this phenomenon in Vietnam using daily, weekly and monthly data set ranging from 2005 to 2015 to investigate both middle-term and long-term perspective. Most of previous studies focus on analyzing herd behavior in short-term based on daily observations. Secondly, we associate level of herd behavior with trading volume in order to find out the relationship between return dispersion and market consensus when the market is in high and low volume states. This investigation has not been done before for Vietnam stock market.

The remainder of the paper is structured as follows. Section 2 presents a review of literature. Section 3 describes data and research methodology. Section 4 reports the empirical results and Section 5 concludes the paper.

## 2. Literature review

There is a huge volume of recent work in finance literature attempting to investigate herd behavior. Theoretically, many studies focus on concepts and classifications of herding (Bikhchandani and Sharma, 2001; Spyrou, 2013). Other papers analyze what drives

herding and its impact on financial system. Some argue that this phenomenon drives the prices further from the fundamental values and causes destabilization (Bikhchandani and Sharma, 2001; Hsieh, 2013; Scharfstein and Stein, 1990; Spyrou, 2013). Others argue that herding actually makes the market more efficient because prices are adjusted faster to new information (Hirshleifer et al., 1994; Hirshleifer and Teoh, 2003).

On the empirical side, many previous papers examine the presence of herding from international perspectives. Particularly, a number of studies investigate this phenomenon in a multi-market setting (Blasco and Ferreruela, 2008; Borensztein and Gelos, 2003; Chang et al., 2000; Chiang and Zheng, 2010; Choi and Skiba, 2015; Hwang and Salmon, 2001). Chang et al. (2000) extend an influential analysis by Christie and Huang (1995) by employing market index returns of different countries to explore herding propensities. This study reports no evidence of herding in the US and most other developed countries but strong evidence in two Asian emerging markets (i.e. South Korea and Taiwan). Similarly to Chang et al.'s (2000) results, Hwang and Salmon (2001) investigate the presence of herding in the US, the UK and South Korea and suggest that herd behavior tends to be stronger in emerging markets than in advanced markets. In contrast, Chiang and Zheng (2010) find evidence of this phenomenon in some developed stock markets when employing market index data to compute herding propensities in country-specific level. Blasco and Ferreruela (2008) investigate herding in seven countries using cross-sectional standard deviation (CSSD) measure. The authors find evidence of herd behavior in only Spain among the sample countries. Borensztein and Gelos (2003) study herding in mutual funds of 400 emerging markets and show significant evidence in different market conditions from tranquil to crisis periods. Recently, Choi and Skiba (2015) use a set of quarterly institutional holdings data of "target countries" including 41 countries in the sample and document the existence of wide-spread herding propensities.

On the other hand, a huge volume of previous works focus on examining the existence of herding in a single stock market setting. Table 1 shows some of empirical evidence on herding in this perspective. The results are different from countries to countries. In general, herding is not only observed in the advanced market but also widely found in Asian and other European stock markets.

Several papers in financial literature also examine herding in stock markets at the firms' stock level (Choi and Skiba, 2015). A few studies have also investigated this phenomenon in other assets. For example, Gleason et al. (2003) extend previous herding studies on common stocks to examine herding in contracts traded in European futures markets. They employ the CSSD method by Christie and Huang (1995) to examine the presence of herding in 13 commodities futures contracts on three European exchanges (FOX, MATIF, and ATA). They conclude that herding is not evident in this future markets. Oehler and Chao (2000) and Galariotis et al. (2015) focus on bond markets. In particular, Oehler and Chao (2000) find strong evidence of herding in German bond market using the sample of 57 German mutual funds. However, the authors show that herding level is weaker in bond market than in stock market. Galariotis et al. (2015) utilize the commonly applied CSAD method to examine the return clustering in European bond market. The results report no evidence of investors herding neither before nor after Europe crisis. Zhou and Anderson (2011) investigate the market-wide herd behavior in the US real estate market. Using quantile regression analysis, the authors find that investors tend to herd under turbulent market conditions. In addition, the findings also support the existence of asymmetric effect which indicates the prevalence of herding in declining market than in rising market.

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