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Sophistication and Price Impact of Foreign Investors in the Brazilian Stock Market

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ABSTRACT

The purposes of this paper are to investigate the informational sophistication of foreign investors in the Brazilian stock market and to assess the price impact on local securities generated by the trading conducted by these agents. As a first finding, these agents exhibit positive and significant responses to past returns, supporting the trend-chasing hypothesis. Additionally, the results indicate a positive and significant influence of these investors on domestic price discovery, an effect that is amplified in magnitude by crisis scenarios. All these findings, combined with the fact that these agents sporadically herd, classify foreign investors as potential local price destabilizers.

Key words: foreign investment, trend chasing, positive feedback trading, destabilization of prices, market efficiency, international finance.

JEL Codes: F32, F65, G11, G12 and G15

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