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## Mutual Fund Herding and Stock Price Crashes

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### Abstract

We investigate the impact of mutual fund herding behaviours on stock price crashes. There are competing hypotheses with respect to how investors' herding behaviours are associated with information processing. Our empirical evidence shows that mutual fund herding is associated with a poor information environment and low disclosure quality. More importantly, mutual fund herding amplifies stock price crash risk afterwards. The main finding is concentrated on buy-herding rather than sell-herding. To mitigate the endogeneity concern, we use the 2004 SEC mutual fund disclosure regulation change as an exogenous shock and the results hold. We further use propensity score matching to alleviate the impact of information asymmetry. Finally, additional analysis reveals that our results are not driven by the price impact hypothesis.

*Keywords:* Stock Price Crashes; Corporate Disclosure; Mutual Fund; Herding

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