Accepted Manuscript

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Wei Li, Ghon Rhee, Steven Shuye Wang

PII: S0927-538X(16)30270-0
DOI: doi: 10.1016/j.pacfin.2016.11.005
Reference: PACFIN 898

To appear in: *Pacific-Basin Finance Journal*

Received date: 16 November 2015
Revised date: 21 July 2016
Accepted date: 24 November 2016

Differences in Herding: Individual vs. Institutional Investors

Wei Li
Guangdong Institute of Enterprise Development, Guangzhou 510620, China.
Tel.: 8620-8883-6036. E-mail: liwei@gdied.org

Ghon Rhee
Shidler College of Business, University of Hawaii, Honolulu, HI 96822, USA
Tel.: 808-956-8582, E-mail: rheesg@hawaii.edu

Steven Shuye Wang*
School of Business, Renmin University of China, Beijing 100872, China.
Tel: 8610-6251-8856. E-mail: wangshuye@rbs.org.cn

This version: July 12, 2016

Abstract

Using a trading volume-based measure, we study the differences between institutional and individual investors in herding. First, better-informed institutional investors trade more selectively, whereas less-informed individuals allocate their investments evenly across stocks. Second, individual investors rely more on public information for their trades as they are influenced by market sentiment and attention-grabbing events. Third, institutional investors react asymmetrically to up- and down-market movements, whereas individual investors do not. Finally, despite these differences in herding both individual and institutional investors pay close attention to one another's trades in forming a consensus.

JEL classification: G1, G12, G23

Key Words: Herding; Individual and institutional trading volumes; Information asymmetry; Market returns.

* Corresponding author. We thank the participants of the 2014 Eastern Financial Association Annual Meetings in Pittsburgh, USA, the 2015 Asian Finance Association Annual Conference in Changsha, China, Avanidhar Subrahmanyam, and seminar participants of the Hong Kong Polytechnic University and Renmin University of China for their helpful comments and suggestions. Any errors remain our own. Wang acknowledges the financial support from the National Natural Science Foundation of China (Project No. 71572191).