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Are individual investors less informed than institutional investors? Unique evidence from investor trading behaviours around bad mergers in Korean financial market

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Abstract

This article presents the trading behaviours of individual and institutional investors in Korean mergers and acquisitions market. Based on Chen et al. (2007), we consider a bidder's negative abnormal announcement-period return as a measure for bad merger. To investigate the investor trading behaviours around the bad mergers, we employ a unique daily trading data of different groups of investors in Korean stock market. Our finding shows that institutional investors sell their shares on a bidding firm before announcement of a bad merger, while individual investors buy the shares. In addition, we find that institutional investors continue to sell their shares on a bidding firm even after announcement of a bad merger, but individual investors keep buying them.

Hence, our results newly support the hypothesis that individual investors are less informed and/or less sophisticated than institutional investors.

Keywords:

individual investors | institutional investors | information asymmetry | bad corporate merger

JEL Classification:

G14 | G34 | G15

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Notes

[1]The trading volume of individual investors in Korea's stock market is significantly higher compared to the US market dominated by institutional investors. According to the Korea Exchange (KRX), over January 2001 to December 2009 period the trading volume of individual investors accounted for 88.19% of total market activities. Also, the trading value of individual investors was 61.32% of the total trading value.