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Do Qualified Foreign Institutional Investors Herd in Taiwan's Securities Market?

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Abstract

This paper investigates whether and why qualified foreign institutional investors (QFIIs) in Taiwan herd when picking stocks. The evidence shows that QFIIs herd in Taiwan's securities market: They follow each other into and out of the same securities. We identify how the herding behavior forms and how it changes over time. The results suggest that there is an industry effect when QFIIs pick up stocks. They herd on securities classified in specific industries and also prefer stocks with high past returns as well as large firm size, supporting the argument that QFIIs are momentum traders. Characteristic herding and investigative herding explain QFIIs' trading behavior in Taiwan.

Keywords:

firm size

herding

momentum trading

qualified foreign institutional investors (QFIIs)

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