

MUTUAL FUNDS HERDING BEHAVIOR, SENTIMENT, AND MARKET VOLATILITY

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ABSTRACT

This paper explores the dynamic interaction of fund herding, investor sentiment, and market volatility using a Vector Autoregression approach. This study investigates such relationships in both buy-herding and sell-herding across stock capitalization quintiles. The results point to investor sentiment and market volatility as the most prominent causes of buy-herding. Market prices and investor sentiment are indicated as the main causes of sell-herding. Our results further indicate that herding behavior can affect market prices in most stock quintiles and market volatility in smaller stock quintiles. Our findings provide valuable insights which can facilitate financial regulation and the formulation of better financial market policies regarding the interactions of herding, sentiment, and market volatility.

Keywords: Herd behavior, Investor sentiment, Market volatility, VAR model

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