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Investigating Herd Behavior in Tehran Stock Exchange Market

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EXTENDED ABSTRACT

INTRODUCTION

Herd behavior has spread in many environments, including sociology, psychology, economics and finance. Basically, herd behavior is one of the key issues in the field of behavioral finance. In financial markets, herd behavior is a process in which investors may ignore their logical analysis and instead take behavior like a group. This type of behavior can have different reasons, such as job concerns, the same style of investment and other factors. Herding Behavior, as a visible social and behavioral phenomenon in financial markets, has a significant impact on market performance. In addition, large-scale herding behavior can lead to an unexpected boom or fall in financial markets. These sudden and unpredictable changes can have irreparable effects on the whole economy. In other words, herd behavior may cause major fluctuations in financial markets, which leads to instability as well as market stability. Hence, due to the lack of a comprehensive study of herd behavior in the growth and fall of recent years in the Tehran Stock Exchange, the authors have examined this behavior in the Tehran Stock Exchange.

METHODOLOGY

The present study is descriptive-survey in terms of purpose, application and method and nature. Also, the duration of the research is 6 years from 2016 to 2022. To select sample companies using the systematic elimination sampling method, 130 companies have been selected as sample volumes. Also, the daily data of these companies has been used. In order to measure the herd behavior of the Tehran Stock Exchange, the authors have used the absolute cross-sectional deviation (CSAD) .

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FINDINGS

In order to find evidence of herd behavior in Tehran Stock Exchange, regression ols are used. Considering that the square coefficient of market returns in Table 1 is negative. It can be seen that over the course of the period under review, investors follow market performance and ignore individual stock characteristics. Hence, there is significant evidence of herd behavior at the market level over the entire daily interval.

Table 1.The results of regression
Source: Research results

Independent variables	coefficients	T - Statistics	Prob	Conclusion
C	0.0158	32.048	0.000	Significant in the model
ABS_Rm	0.472	15.296	0.000	Significant in the model
SQ_Rm	-20.322	-15.135	0.000	Significant in the model
AR(1)	0.849	55.742	0.000	Significant in the model
F-statistic		761.025	**R-squared**	0.712
Prob		0.000		
Durbin-Watson stat		2.48	**Adjusted R-squared**	0.711

After knowing the existence of a herd of behavior in the Tehran Stock Exchange, the authors affected the effect of this behavior during the rise and decline of the market. According to the negative factors of y_4 and y_3 in Table 2 , it can be concluded that herd behavior has existed both during the decline of the market and during the boom of the market during the period under review. Also, given that the absolute value of the y_4 coefficient is higher than

y_3 , it can be concluded that the amount of herd behavior during the decline of the market has increased since the boom of the market.

Table 2.The results of regression
Source: Research results

Independent variables	coefficients	T - Statistics	Prob	Conclusion
C	0.016	32.425	0.000	Significant in the model
$(1-D)R_{m,t}$	0.344	16.365	0.000	Significant in the model
$D\ R_{m,t}$	-0.455	-16.012	0.000	Significant in the model
$(1-D){R_{m,t}}^2$	-15.051	-22.386	0.000	Significant in the model
${D^2}_{m,t}$	-17.582	-15.987	0.000	Significant in the model
AR(1)	0.849	58.378	0.000	Significant in the model
F-statistic		527.262	**R-squared**	0.698
Prob		0.000		
Durbin-Watson stat		2.453	**Adjusted R-squared**	0.697

CONCLUSION

Herd behavior is one of the most important issues in the field of financial behavior that can distract the price of assets from their fundamental value. Sometimes the imitation of institutional investors leads to market price efficiency. According to the findings of this research, in particular, the more severe herd behavior of investors during the decline of the market, it is suggested that policymakers try to provide solutions with increased investor tolerance during the decline of the market. It is also suggested that by

comparing the capital market of Iran with other capital markets of other countries, the deeper identification of the causes of the underlying herd behavior being addressed.

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