

The Study on Herd Behaviour in Colombo Stock Exchange

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Abstract

Traditional Finance theory presumed that equity market participants take decisions based on rational platforms. However, recent market incidents witnessed that investor's decision making process is fueled with irrational behaviors like herding. This study attempts to examine the herd behavior among investors in Colombo Stock Exchange (CSE). During the Civil war time period Colombo bourse significantly impaired investors sentiment and gloomy outlook witnessed. Benchmark Index dragged down by 40% which implies that investors' sentiment largely weigh on uncertain country's outlook. Cease of war situation in country which resulted in upliftment in the performances of Colombo Stock exchange and bench mark index surpassed key physiological point barriers. Researchers believed that time interval accurately captured the market fluctuations during the Sri Lanka civil war situation. The study further attempts to detect the herding in bull and bear phrases in market. Long term bull run of CSE tandem with positive sentiment over future aspects of country and improving macroeconomic fundamentals. S& P SL 20 Index which was previously known as Milanka is used as a sample of the study. Daily counter returns of the S& P SL 20 index during the period of 2008-2010 has been gathered for analysis. This Study employed two empirical methods named Cross Sectional Absolute Deviation Return (CSAD) and Cross Sectional Standard deviation (CSSD) Method. All share price index is used as the proxy for market returns and S& P SL 20 individual counter returns used as a market portfolio returns assuming that blue chip counters are quickly respondent to the market moving news effect due to their high liquidity.

Keywords: CSE, Herd Behavior, Investor Decision, Irrational