

An Examination of Herd Behaviour: Evidence from Colombo Stock Exchange

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Traditional Finance theory presumed that equity market participants take decisions based on rational platforms. However, recent market incidents witnessed investors' decision making process is fueled with irrational behaviour like herding. Herding behaviour is a dominated behavioural biases which depict investors take decisions based on imitating other investors' behavior. The lack of research regarding herding, done in emerging markets especially in Sri Lankan context and the inconclusive results of the studies undertaken, were the key motives for this study. Hence, this study attempts to examine the herding behaviour among investors in Colombo Stock Exchange (CSE) and to identify herding among Bull and Bear market phrases. The daily share return of 20 companies in S&P 20 index from 2007 to 2018 were taken for the study and All Share Price Index is used as the proxy for market returns. The model, Cross Sectional Absolute Deviation (CSAD) and Cross Sectional Standard Deviation (CSSD) were used to detect market-wide herding. Results obtained fail to find any evidence regarding Herding in Colombo Stock Exchange during the Period of Study. Significant but positive coefficient values attached to CSAD method implied the absence of Herding in overall market as well as bull and bear phrases. CSSD method further implied the absence of Herding behaviour during the period of study. Further, this study reflects investors in CSE purely look at risk return properties of individual counters rather than following other investors behaviour. It reflects majority of investors in CSE purely take decisions based on rational analysis of price sensitive risk return information rather than based on irrational behavior like herding. Lacking the behavioral biases like herding among the capital market participants transmit a message to regulators and policy makers to develop sound capital market infrastructure based on rational finance theories. Investors should rely on logical information to avoid being bias before taking their investment actions.

Keywords: *Behavioral bias, Cross Sectional Standard Deviation, Cross Sectional Absolute Deviation, Colombo Stock Exchange, Herding Behaviour*

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