Herding Behavior Detection: Bullish and Bearish Cases

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ABSTRACT
This study aims to examine the presence of herding behavior on the Indonesian stock exchange (BEI), especially in the infrastructure, utilities, and transportation sectors. Daily data has been gathered for analysis from the 2013-2017 period, and this period was chosen to capture the extreme market movement, especially in bullish times. For this purpose, we use the herding behavior model by Christie and Huang (1995) to measure return dispersions from market return. The results fail to find any evidence of herding behavior in the infrastructure, utilities, and transportation sectors. Even in its sub-sectors, telecommunications are statistically significant in all market conditions where there is no herding behavior. These findings indicate that investors on BEI have heterogeneous beliefs and indicate that information is imparted efficiently to the investor to obviate their need to follow market consensus on their trading decisions.

Keywords: herding, behavior, investor, bullish, bearish.

1 INTRODUCTION

Behavioral finance explains several anomalies that cannot be explained through traditional financial models. One of them is herding behavior. The existence of herding behavior in financial markets is worthy of investigation for the reasons below. Many investors and financial managers pay attention to information that affects the stock price movement.

Herding occurs when someone decides to follow the market movements or other people's investment decisions rather than following self-confidence or essential information. This decision can make the movement of a stock does not move toward an efficient market. According to Bikhchandani & Sharma (2001), the herding behavior is a situation when investors ignore the information they have and are more likely to follow the analyzed patterns that emerge in financial markets. Herding can be rational if a group that is followed has information that is only known to a handful of people or, based on Avery & Zemsky (1998) when there is uncertainty about information owned by traders, investors behave as if rational in analyzing information.

Banerjee (1992) explains that herding behavior is the behavior of everyone doing what is done by most people even though publicly available information states that they must do the opposite. The authors find many terms about herding in several branches of science such as sociology, psychology, economics, neurology, and zoology. In economics and finance, patterns of herding behavior refer to the processes of economic agents that imitate each other in terms of their investment decisions—for example, the behavior of groups that carry out trading processes with the same pattern and time. (Nofsinger & Sias 1999), investors who ignore their own investment decisions and prefer to follow other investors' trading behavior patterns because they are more dominant (Avery & Zemsky 1998). Are the patterns of herding behavior rational? Some researchers reject the opinion that herding in some
circumstances is a rational choice. Based on Demirer et al. (2010), the herding behavior pattern of investors is an alternative investment in the market. For example, investment managers will follow other investment managers in some circumstances to maintain their reputation or turnover, and junior analysts will follow another consensus rather than doing much further research due to worrying about their future in securities companies. In addition, the pattern of herding behavior can be said to be rational if the investor does not have a long-term horizon. For example, Froot et al. (1992) examine that if speculators have a short-term horizon, then they will be herding on the same information to learn what other investors know.

Several methods have been used to study herding. The first is done by analyzing herding, especially on institutional investors. This method was introduced by Lakonishok et al. (1992) and developed by Sias (2004). The second is done by checking herding through market consensus based on existing data in the capital market. This method was introduced by Christie & Huang (1995), Chang et al. (2000), and Hwang & Salmon (2004) and is widely used in financial literature. This latter method is easier to implement because it only calculates the rate of return of an investment based on available data, not based on daily trading activities.

The research results conducted by Christie and Huang (1995) show that herding behavior does not occur in stock exchanges in the United States when extreme market volatility occurs in any industry. This study is in line with Chang et al. (2000) that show herding behavior does not occur in stock exchanges in Taiwan and South Korea in times of extreme market volatility. Shah et al. (2017) show the opposite results where herding behavior occurs in the transportation and multi-utility industries (gas and water) but not in other industries. Herding research is also conducted in Indonesia by Hana and Prasetiono (2017) applying a method developed by Chang et al. (2000) on the Indonesian capital market. The results show a significant pattern of herding behavior. While other research by Pangesti and Koesrindartoto (2013) using the same method as Christie and Huang (1995) on nine industrial sectors on the IDX reveal that herding behavior pattern does not occur.

In this research, the herding process is measured based on return dispersion-based models or commonly known as Cross-Sectional Standard Deviation (CSSD). (Christie & Huang 1995) and state-space models (Hwang & Salmon 2004). While other studies by Chang et al. (2000) with the cross-sectional absolute deviations of returns (CSAD) method as a tool to measure the return distribution of a portfolio.

Herding behavior analysis method with CSSD has been done in previous studies and based on the background & problem formulation, the hypotheses proposed for this study are as follows:

H1 : Stocks in the infrastructure, utilities, and transportation sectors show herding behavior in the JSX Index.
H2 : Stocks in the energy, transportation, toll road, telecommunications, and non-construction sub-sectors show herding behavior in the JSX Index.

2 RESEARCH METHOD

\[ r_{jt} = \text{stock return}_j \text{ on } t \]
\[ r_t = \text{cross-section average return}_n \text{ on } t \]
\[ n = \text{stocks in portfolio on } t \]

There is an inverse difference between the rational asset pricing model and herding behavior, especially when the stock market is significantly corrected. The rational asset pricing model concludes that when the stock exchange is corrected, the level of return dispersion will be significant because of the sensitivity of each individual to their stock returns, while the herding model draws conclusions that are inversely proportional to the rational asset pricing model. To distinguish the two hypotheses above, the authors separate these different dispersion levels at
the extreme tails level in the normal distribution curve at market returns where herding behavior usually occurs during extreme market movements both when the index rises or falls and to test whether it differs significantly from average dispersion using the linear regression model below:

$$CSSD_t = a + \beta_1 D_t^U + \beta_2 D_t^L + \varepsilon_t$$

$D_t^U$ ($D_t^L$) is a dummy variable for market movement when rising or falling with market return movement at time $t$. $D_t^L = 1$, if the return from the IDX stock index is in the lower tail dispersion and 0 vice versa. And $D_t^U = 1$, if the return from the IDX stock index is in its upper tail dispersion and 0 vice versa. The dummy variable in the regression equation above is used as an exploratory variable to distinguish extreme market periods from normal periods. An extreme market when market returns are in the upper and lower tails. The coefficient $\beta$ shows the relationship between the dispersion of return of an asset or portfolio and herding behavior patterns. If the herding behavior pattern is detected, then the dispersion will be small and vice versa; if the herding behavior pattern is not detected, the dispersion will increase. Coefficient values $\beta_1$ and $\beta_2$ show negative, meaning there is a herding behavior in the market while the rational asset pricing model shows positive results.

Secondary data was collected by downloading the required data, such as daily return data over the 2013-2017 period for stocks in the infrastructure, utilities, transportation sectors, and data returns from the CSPI over the 2013-2017 period. The 2013-2017 period was chosen as extreme bullish market patterns due to the IDX has increased to 44% on these periods.

3 DISCUSSION

To test patterns of herding behavior in the infrastructure and utilities sectors, CSSD is calculated daily during the 2013-2017 period. This CSSD value is obtained from the daily return data of the shares of the infrastructure sector, the utilities chose was 35 shares. To find out the pattern of herding behavior in times of large market fluctuations, both bullish and bearish, a dummy regression model is used when the market goes up or down. Table 1 below shows the regression results that use 1-5% dummy both when the market goes up or down.

### Table 1. Regression results to test herding behavior in the Infrastructure and Utilities sectors.

<table>
<thead>
<tr>
<th>Index</th>
<th>$\beta_1$</th>
<th>t-Value</th>
<th>$\beta_2$</th>
<th>t-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Du5/Dn5</td>
<td>0.003*</td>
<td>1.676</td>
<td>0.003**</td>
<td>2.202</td>
</tr>
<tr>
<td>Du4/Dn4</td>
<td>0.003</td>
<td>1.589</td>
<td>0.005***</td>
<td>2.706</td>
</tr>
<tr>
<td>Du3/Dn3</td>
<td>0.004**</td>
<td>2.111</td>
<td>0.005**</td>
<td>2.272</td>
</tr>
<tr>
<td>Du2/Dn2</td>
<td>0.006**</td>
<td>2.267</td>
<td>0.005**</td>
<td>2.171</td>
</tr>
<tr>
<td>Du1/Dn1</td>
<td>0.008**</td>
<td>2.273</td>
<td>0.006*</td>
<td>1.694</td>
</tr>
</tbody>
</table>

The results in Table 1 show that the dispersion during extreme market movements is greater than during normal days. This also shows that in the infrastructure and the utilities sectors, in the 2013-2017 period when the JCI experienced a prolonged bullish trend, herding behavior does not occur because the positive results show that the value of CSSD will be even greater. These results are consistent with predictions of rational asset pricing and contradictions with predictive results from herding behavior patterns (Christie & Huang 1995). This shows that stock investors in CSPI have heterogeneous beliefs in terms of investment decisions. This also shows that issuers in the infrastructure and utilities sectors have public information such as public exposures from issuers that are specific enough about investors or traders tend to trade issuers individually rather than following the direction of the consensus. (Henker et al. 2006).

The study also examines patterns of herding behavior in the telecommunications sub-sector (the biggest capitalization is in the infrastructure, utilities, and transportation.
sectors). Table 2 below shows the regression results that use 1-5% dummy both when the market goes up or down.

Table 2. Regression results to test herding behavior in the Telecommunications sub-sector

<table>
<thead>
<tr>
<th>Index</th>
<th>β₁</th>
<th>t-Value</th>
<th>β₂</th>
<th>t-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Du₅/Dn₅</td>
<td>0.004***</td>
<td>2.929</td>
<td>0.006***</td>
<td>4.568</td>
</tr>
<tr>
<td>Du₄/Dn₄</td>
<td>0.005***</td>
<td>3.167</td>
<td>0.006***</td>
<td>4.2</td>
</tr>
<tr>
<td>Du₃/Dn₃</td>
<td>0.006***</td>
<td>3.417</td>
<td>0.007***</td>
<td>4.293</td>
</tr>
<tr>
<td>Du₂/Dn₂</td>
<td>0.009***</td>
<td>4.058</td>
<td>0.007***</td>
<td>3.480</td>
</tr>
<tr>
<td>Du₁/Dn₁</td>
<td>0.013***</td>
<td>4.411</td>
<td>0.009***</td>
<td>3.151</td>
</tr>
</tbody>
</table>

The above results show that in the telecommunications sub-sector as the sub-sector with the highest capitalization in the sector, there is no significant positive herding behavior pattern either when the market is going up or down to the extreme. The above results are consistent with the lowest standard deviation of CSSD owned by the telecommunications sub-sector compared to other sub-sectors such as energy, transportation, non-building construction, toll roads, and infrastructure and utilities sectors. A lower standard deviation indicates that the dispersion value is more reliable for testing herding behavior patterns. This result is consistent with research conducted by Shah et al. (2017), showing no significant positive herding behavior patterns at 1%. This shows that in the telecommunications sub-sector, investors in the IDX carry out trading or investment processes based on their own decisions without imitating any analysts’ security forecasts either during a crisis or bullish euphoria. In addition, the results in the telecommunications sub-sector are also in accordance with the research of Ghalandari and Gahremanpour (2013) that show confident investors expect their own information in terms of their investment decisions. This can also be caused by the telecommunications sector consisting of stocks with good fundamentals so that investors have different time horizons in terms of investment decisions.

Based on research that has been conducted on the detection of whether there is a pattern of herding behavior in the Indonesian stock market, especially in the infrastructure and utilities sectors in the 2013-207 period by using daily data returns, it is found that there is no significant positive pattern of herding behavior in these sectors except when upper tail 4% although not statistically significant. The most positive significant results in all market conditions (upper and lower tail 1-5%) occur in the telecommunications sub-sector, where investors in this sub-sector are able to absorb information efficiently. Whereas the energy and transportation sub-sectors statistically produce insignificant results which means that this sub-sector cannot find a relationship between the dispersion of individual stocks with market returns. This shows that when the JCI was in a prolonged bullish period during the 2013-2017 period, investors in Indonesia have heterogeneous beliefs in terms of decisions for trading and investing in the stock exchange. This is consistent with Pangesti & Koesrindartoto’s (2013) research who conduct research on the IDX in nine sectors. With an increase in the number of investors, especially in 2017 by 16.4%, it also produces investors who cannot be easily influenced by rumors in the market regarding their investment decisions, but they follow their personal investment decisions. This proves that the development of transactions through online trading makes investors more educated in absorbing information so that investment decisions become more rational and do not focus on consensus in terms of investment decisions.

4 CONCLUSION

This study has a limitation where it is only conducted on stocks in the infrastructure, utilities and energy, telecommunications,
non-building construction, transportation, and toll road-building sub-sectors over the 2013-2017 period. In these periods, the market was experiencing prolonged bullish take daily returns from sectors and sub-sectors and daily market returns. Based on the study results, this study only focuses on its sector and macro index returns, whereas at the JCI, it seems that herding behavior patterns are more prevalent in micro sectors such as second and third liner stocks.

REFERENCES


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Sumaia Farzana, Madawala Liyanage Duminda Jayaranjan, Saif Ur Rahman

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studying in Thailand. The paper adopts Technology Acceptance Model to comprehend the association between perceived ease of use, perceived usefulness, attitudes, and intention to use e-book for their studies.

Proceedings Article

Strategic Orientation and Human Resources Management in Public Sector Organizations in the Society 5.0 Era
Maria Elizabeth Lanny Kusuma Widjaja

Strategic orientation is a principle that guides, directs, and influences organizational activities that produce behavior to ensure organizational survival, performance, and innovation. Public sector organizations in the society 5.0 era have the potential to face various changes, environmental uncertainties,

Proceedings Article

KPI-Based Incentive System and Individual Performance Assessment in “A” Organization in Surabaya
Johny Rusdiyanto

This study focuses on the role of objectivity in individual performance appraisals and the use of the KPI (Key Performance Indicators) system in determining HR incentives. This activity is done to encourage work motivation of “A” organization human resources in the industrial 4.0 era and society 5.0.

Proceedings Article

Organizational Effectiveness: A Second-order Confirmatory Factor Analysis
Waiphot Kulachai, S. Vuttivoradit, A.P. Tedjakusuma, P. Homyamyen

Organizational effectiveness has caught the attention of scholars for decades since it indicates the efficiency and achievement of an organization. However, measuring organizational effectiveness is quite difficult and controversial since there are various approaches to measure it. Recently, there are...
Ethical Dilemma Decision Making Based on Personality: The Case of Installation of a Keylogger System
Permata Ayu Widyasari

The use of artificial intelligence, including keylogger systems, is unavoidable. Companies install keylogger systems on office computers to ensure that their employee is working effectively and efficiently. Meanwhile, the employee perceived it as spying and breaching their privacy. The study examines...

Proceedings Article

The Antecedents of Knowledge Sharing in Public Sector
Igfar Reza Ahmadi, Riani Rachmawati

Knowledge sharing takes part in supporting the era of society 5.0. This study aims to investigate the role of perceived organizational support (POS), servant leadership, and organizational citizenship behavior (OCB) as the antecedents of knowledge sharing. The data were collected via an online questionnaire...

Proceedings Article

The Effect of Job Rotation and Person-Job Fit On Employee Engagement: The Mediation Role of the Job Satisfaction
Eko Prasetyo Agustian, Riani Rachmawati

This study aims to determine the implementation of human resource management practices, such as job rotation and person-job fit that affect employee engagement through job satisfaction as a mediating variable. Data analysis in this research used explanatory research with a quantitative approach. This...

Proceedings Article

Measuring the Effectiveness of e-learning in Public Sector
Herina Nurhayati, R. Rachmawati

Electronic learning (e-learning) has been widely adopted by many companies as a strategic tool for the learning and development of their employees, mainly for time and cost-saving. This study aims to assess the effectiveness of e-learning using six constructs of the updated DeLone and McLean information...
Proceedings Article

Innovation as a Key Solution for MSES’ Survival in the COVID-19 Pandemic: A Case Study of MSES in Bogo Village – Bojonegoro Regency – East Java
Elsye Tendelilin, K. D. Noviaty, Karina C. Rani, Nikmatul I.E. Jayani

The Covid-19 pandemic has a significant impact on the economic growth of many countries. Bogo village-Bojonegoro Regency is one of the centers for moringa plants produced by MSE. Moringa plant is a herbal plant that is beneficial for health. During the pandemic, MSEs have been experiencing difficulties...

Proceedings Article

The Influence of Distributive Justice and Procedural Justice in Job Satisfaction Through Perceived Organizational Supports (Case Study in GOJEK Surabaya)
Faizal Susilo Hadi, Kharis Septina Liftyawan

This research aims to investigate the effect of distributive justice and procedural justice on drivers' satisfaction. Through perceived organizational support, this research will examine the influence of distributive justice and procedural justice mutualism on drivers' satisfaction. This study was held...

Proceedings Article

The High-performance Work Environment and Employee Engagement to Face Changes in the Society 5.0 Era Millennials Workers
Noviaty Kresna Darmasetiawan

This research analyzes the influence of a high-performance work environment and employee engagement on millennials working in companies to face changes in the society 5.0 era. This research used mixed methods, i.e., quantitative methods that are equipped with qualitative methods. Variables tested were...

Proceedings Article

Post-pandemic Community Resilience: Community and Economic
Conditions of Wedi Village
Agustina J.N. Pramudita, J.L. Eko Nugroho

This qualitative study aims to explore and understand the community, its economic conditions, and resilience towards the Covid-19 pandemic. The study was conducted at Wedi Village in Bojonegoro Regency, Indonesia. This village is well known for its small-medium enterprise products made from salak or...

Proceedings Article
International Negotiations in Asian Countries and India: Where Do I start? Impact of Modern Technology?
Yashwant Pathak

Global marketing is becoming an essential aspect of marketing management, and it is an integral part of international business. As the companies are looking for a market for their products, it has become imperative that the people have to build expertise in interacting with culturally diverse groups...

Proceedings Article
Suggestion from Experience of Some Asian Countries Regarding "City-inside City": A Case Study of Thu Duc City of Ho Chi Minh City
Phan Thi Hong Xuan, Nguyen Minh Nhut

On November 16th, 2020, the Socialist Republic of Vietnam's National Assembly had passed the Resolution for Organizing Ho Chi Minh City's urban administration (at the 10th meeting, National Assembly session XIV). By deciding to “implement without the need of testing”, the National Assembly expresses...

Proceedings Article
Development of New Success Criteria for SMEs By Relying on Virtual Capital
Abdul Azis Bagis

The results of this study reveal that short-term profits and long-term business sustainability determine the success criteria of a business entity. Building business sustainability or viability in today's turbulent era requires strength from business players in the form of virtual capital. The objects...
Proceedings Article

Clustering of Corporate Social Responsibility in the Indonesian Manufacturing Industry: How Far Can You Go?
Esti Dwi Rinawiyanti, Xueli Huang, Sharif As-Saber

This paper aims to cluster corporate social responsibility (CSR) practices that correspond to the CSR strategy implemented. This study performed factor and cluster analyses with 435 data from Indonesian manufacturing companies. The factor analysis resulted three categories of CSR dimensions: legal-ethical,...

Proceedings Article

Competitive Diamond of Artisanal and Small Scale Gold Mining Industrial Cluster in Lombok Island, Indonesia
Lalu M. Furkan, R Baiq Handayani, Emilia Septiani

This research clarifies the competitive diamond of the Lombok ASGM industrial cluster. The Lombok ASGM industry is concentrated in Sekotong and Gunung Prabu areas. In order to achieve the research objective, a field survey had been conducted. In-depth interview with the miners, gold buyer, NGO, women...

Proceedings Article

The Role of Woman Entrepreneurship in Creative Tourism Development
Agusdin, Santi Meitasari, Lalu Muhammad Furkan

This paper draws on a case of a woman entrepreneur (Zaenab) who has been innovative, establishes a business (UD Azhari), initiates the establishment of a sustainable tourism village (Green Village of Bilebante) and develops creative tourism businesses as community development. A descriptive case study...
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