

# Herding in Capital Markets: Analysis of Herding Towards the Market in ISE

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## Abstract

The aim of the paper is to investigate the presence of herding towards the market in Istanbul Stock Exchange (ISE) during the period of 2nd January 1997-29th February 2008. We got the evidence of the existence of herding behavior in ISE by the implementation of the methodology which is based on the cross sectional volatility of the stock returns. On the other hand, the results show that the relation between cross sectional volatility and extreme high or low returns is nonlinear. These results are also supported by the similar evidence got from the analysis of each sector, namely services, financial, industrial and investment trusts sectors. Another methodology which is based on the cross sectional volatility of beta coefficients of the stocks is also implemented in order to get a deeper analysis. The results show that, herding towards the market is a general trend for the whole market but we cannot find the evidence of herding in the periods of December 2003-April 2004 and May-October 2006. Sectoral analysis also show that herding towards market is also valid for all sectors but the periods in which investors do not herd are not same for all sectors.

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