



TRADING BEHAVIOR BY FOREIGN AND DOMESTIC INVESTORS

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ABSTRACT

Purpose- Momentum, a well-known anomaly in financial markets, has garnered considerable attention from both academicians and market participants due to its implications for the market efficiency hypothesis and investment plans of investors. While momentum trading can yield excess returns, it is not a possible strategy for all investors because if one segment of investors employs a momentum trading strategy to profit from their trades, it requires another type of investor to take the opposite position to clear the market.

Methodology- I investigate the momentum trading behavior of investors in different segments of Borsa İstanbul. Specifically, I focus on the momentum trading behavior among local and foreign investors and private and institutional investors.

Findings- The results show that foreign investors' stock holdings are positively associated with past returns inferring momentum trading while domestic investors are contrarians. Further analysis of domestic investors' investing strategies reveals that the contrarian trading of domestic investors is mainly driven by individual investors.

Conclusion- The results show that foreign investors' stock holdings are positively associated with past returns inferring momentum trading while domestic investors are contrarians. Also, the contrarian trading of domestic investors is mainly driven by individual investors.

Keywords: Momentum trading, investor behavior, foreign investor, domestic investor, panel data

JEL Codes: G40, G11, G14

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