

Do Institutions Trade Too Much?

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Abstract

We examine if institutions are overconfident investors by examining the performance of the stocks they buy versus those they sell over various time horizons and then examine how institutional trades relate to lagged market based returns, using a large sample of institutional trades for over 12 years. We find that the stocks that institutions buy perform better than the stocks they sell and that daily measures of institutional turnover (both over all of the stocks they trade as well as on specific stocks) is uncorrelated with lagged market returns. We interpret the evidence to conclude that institutions are not overconfident investors and that they do not display any significant effects related to biased self-attribution or the disposition effect.

Speaker's profile:

Sugato Chakravarty is a Professor in the Department of Consumer Science at Purdue University. Professor Chakravarty conducts theoretical and empirical research in finance. His current research focuses on market microstructure, banking and asset pricing involving stock, options and fixed income securities, and spans both domestic and foreign markets. Professor Chakravarty's research has appeared in leading academic journals, including the Journal of Finance, Journal of Financial Economics, Journal of Business, Journal of Financial and Quantitative Analysis, Journal of Empirical Finance, and the Journal of Financial Markets. He serves as Associate Editor of the Journal of Financial Markets. Professor Chakravarty has won research awards including the Barclay's Global Investors Research Award for the best paper on Australasian Markets (with P. Kalev and L. Pham) and the Best Paper Award (with B. Van Ness and R. Van Ness) at the Eastern Finance Annual Conference. Professor Chakravarty's research findings have been variously disseminated in the Wall Street Journal, Barron's, Investor's Business Daily and other national newspapers and trade journals. He has also served as a consultant to the World Bank, won a Q-group Research award, and is listed in the Marquis Who's Who in American Education.