Herding Behavior in the French Stock Market: A Sectoral Empirical Analysis

Omar MEHARZI (Ph.D. candidate, Centre of Studies and Research Applied in Management (CERAG), University of Grenoble, France)

Over the last decade, academic research has developed a growing interest in examining the investor's behavior in the stock markets. In order to explain the limits of the efficient market hypothesis and the financial market fragility, many theories of psychology have been used in "Behavioral Finance". Researchers analyze investor's herding behavior to explain market anomalies and the large market movements.

In this paper, we examine herding behavior in the French market at both the market and sectoral levels. Our empirical tests aim to examine the potential herding differences between the market and the sector levels using a sample of 1251 firm covering the period January-1991 to December 2011.

Using Christie and Huang (1995) model, we find that herding exists neither in market nor in sector levels during extreme market movements. By using the Chang, Cheng & Khorana (2000) model, we find that the herding behavior exists in the market level, but the sectors show mixed results. Financial and Industrial sectors are affected by the herding behavior during down markets but not during the crises period. They are affected by herding behavior in both low volatility and high volume periods. However, the herding behavior sometimes occurs in sectors during the crisis period, and also when market faces low volatility and high volume movements.

The study sheds light on the existence of herding behavior and the differences between the market and the sector level. Comparison of these results with the US or the one of other developed European countries could be interesting.

Key words: Financial Market, Herding behavior; Behavioral Finance, Financial crisis.
JEL classification: C91, C92, D8, G1, G15.