Daily Momentum and New Investors in an Emerging Stock Market

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Price Momentum and Behavioral Finance

Medium-term price momentum over 3-12 months horizon (Jegadeesh–Titman '93) and long-term reversals over 2-5 years

- Are pronounced phenomena in the US and other major stock markets
- Had precipitated the development of behavioral finance theories (e.g., Barberis–Shleifer–Vishny '98; Daniel–Hirshleifer–Subrahmanyam '98; Hong–Stein '99)

Theories highlight investors' cognitive biases, including overconfidence, over-extrapolation, limited attention, and so on

No Momentum in China

The Chinese stock market is widely regarded as speculative, and investors feature strong cognitive biases (Song–Xiong '18; Allen et al. '20; Hu–Pan–Wang '21)

- Over 200% annual turnover rate
- Institutions are still under-developed (IO less than 10%)
- Trading dominated by inexperienced retail investors
- Large inflows of new investors in this relatively new market

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However, medium-term price momentum is absent from China

- e.g., Chui–Titman–Wei '10; Du et al. '22
- Instead, robust reversal effects at the horizons from 1, 3, 6, 12 months to five years (Liu–Stambaugh–Yuan '19)

The lack of medium momentum in China challenges those classic behavioral finance theories

Our Paper

- Uncovers a significant momentum effect in daily returns
  - Momentum persists for one to two days before it reverses
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- Examines the trading dynamics of various investor groups
  - Using account-level transaction data from the Shenzhen Stock Exchange (SZSE) in 2005-2019
  - Can track all trading activities of an individual or institution
- Evidence suggests new investors' trading behavior and interaction with other investor groups lead to daily momentum
  - More reactive to daily market gyrations
  - Heightened representation of noise traders
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  - The Chinese market features regular influxes of new, inexperienced investors
- Daily price momentum also appears in many emerging markets
  - Which tend to be populated by inexperienced retail investors

Related Literature

- The momentum effect in asset returns
  - Jegadeesh–Titman '93, Rouwenhorst '98, Griffin–Ji–Martin '03, and Asness–Moskowitz–Pedersen '13
  - Our paper uncovers daily momentum effect in China and other emerging markets and attributes it to trading behaviors of new investors

- Retail investors
  - US: Barber-Odean '13 for a review
  - Chinese markets: An–Lou–Shi '22, Jones et al. '21, Liao–Peng–Zhu '21, Chen et al. '19, Liu et al. '22
  - Indian markets: Balasubramaniam et al. '23, Anagol –Balasubramaniam–Ramadorai '21, Campbell–Ramadorai–Ranish '19
  - Taiwan markets: Barber et al. '14, Lee–Lin–Liu '99
  - Our paper: heterogeneity in retail investors with a focus on new investors

Related Literature

- Investment experience/inexperience
  - Greenwood–Nagel '09: younger fund managers as trend chasers and perform poorly during the tech bubble
  - Barber et al. '22, Welch '22: inexperienced Robinhood users during 2018-20
  - Our paper: a systematic analysis of new and experienced investors in a long sample period, including both booms and non-booms

- Noise trading (Kyle, 1985; Black, 1986)
  - Empirical: e.g., Lee–Shleifer–Thaler '91, Neal–Wheatley '98, Nagel '05, Kumar–Lee '06, Baber–Odean–Zhu '09
  - Our paper: new investors' trading as a sharp measure of noise trading

Price Momentum in China (Monthly)

- Fama-Macbeth regression on past returns and stock characteristics

	Ret_{m+1}	$Ret_{m+1\to m+3}$	$Ret_{m+1\to m+6}$
Ret_m	-0.026 (-2.68)	-0.014 (-0.72)	0.003 (0.09)
$Ret_{m-11\to m-1}$	-0.000 (-0.10)	-0.002 (-0.13)	-0.008 (-0.25)
Ln_cap	-0.003 (-1.76)	-0.009 (-1.87)	-0.017 (-2.04)
Abn_turnover	-0.011 (-3.70)	-0.015 (-2.94)	-0.018 (-2.14)
BM	0.008 (2.65)	0.019 (2.17)	0.037 (2.05)
Vol	0.108 (0.86)	-0.395 (-1.61)	-1.148 (-3.26)
Max	-0.095 (-3.90)	-0.11 (-3.15)	-0.089 (-1.16)
Illiq	0.398 (1.44)	1.772 (2.69)	2.279 (2.05)
N	280700	280700	280700
R^2	0.105	0.103	0.094

Price Momentum in China (Weekly & Daily)

Panel B: Weekly returns

	Ret_{w+1}	$Ret_{w+1\to w+2}$	$Ret_{w+1\to w+3}$
Ret_{w}	-0.092	-0.114	-0.123
	(-19.00)	(-17.20)	(-14.95)
$Ret_{w-3\to w-1}$	-0.028	-0.042	-0.050
	(-9.88)	(-10.09)	(-9.27)
Controls	Yes	Yes	Yes
N	1444919	1444919	1444919
R^2	0.162	0.183	0.184

Panel C: Daily returns

	Ret_{d+1}	$Ret_{d+2\to d+6}$	$Ret_{d+2\to d+11}$
Ret_{d}	0.02708	-0.12812	-0.14193
	(7.54)	(-21.09)	(-17.54)
$Ret_{d-5\to d-1}$	-0.02764	-0.06886	-0.08803
	(-24.92)	(-20.76)	(-17.20)
$Ret_{d-21\to d-6}$	-0.00903	-0.03257	-0.04928
	(-17.73)	(-15.04)	(-13.56)
Controls	Yes	Yes	Yes
N	5896299	5896299	5896299
R^2	0.132	0.166	0.185

Daily Momentum: Portfolio Sort

Value-weight

J:Sorting horizon	I: Holding horizon 1d	2d	3d	4d	5d	10d
1d	0.0037 (9.47)	0.0030 (5.75)	0.0031 (5.08)	0.0031 (4.60)	0.0014 (2.00)	0.0019 (2.52)
2d	0.0017 (5.27)	0.0009 (1.90)	0.0008 (1.33)	-0.0005 (-0.83)	-0.0022 (-3.13)	-0.0011 (-1.24)
3d	0.0012 (4.17)	0.0005 (1.14)	-0.0007 (-1.21)	-0.0022 (-3.16)	-0.0036 (-4.52)	-0.0021 (-2.05)
5d	-0.0002 (-0.63)	-0.0018 (-4.24)	-0.0030 (-5.05)	-0.0039 (-5.26)	-0.0047 (-5.43)	-0.0034 (-2.79)
10d	0.0001 (0.37)	-0.0007 (-1.81)	-0.0013 (-2.16)	-0.0018 (-2.44)	-0.0023 (-2.52)	-0.0015 (-0.92)

Daily Momentum: Excluding Limit-Hitting Days

Value-weight

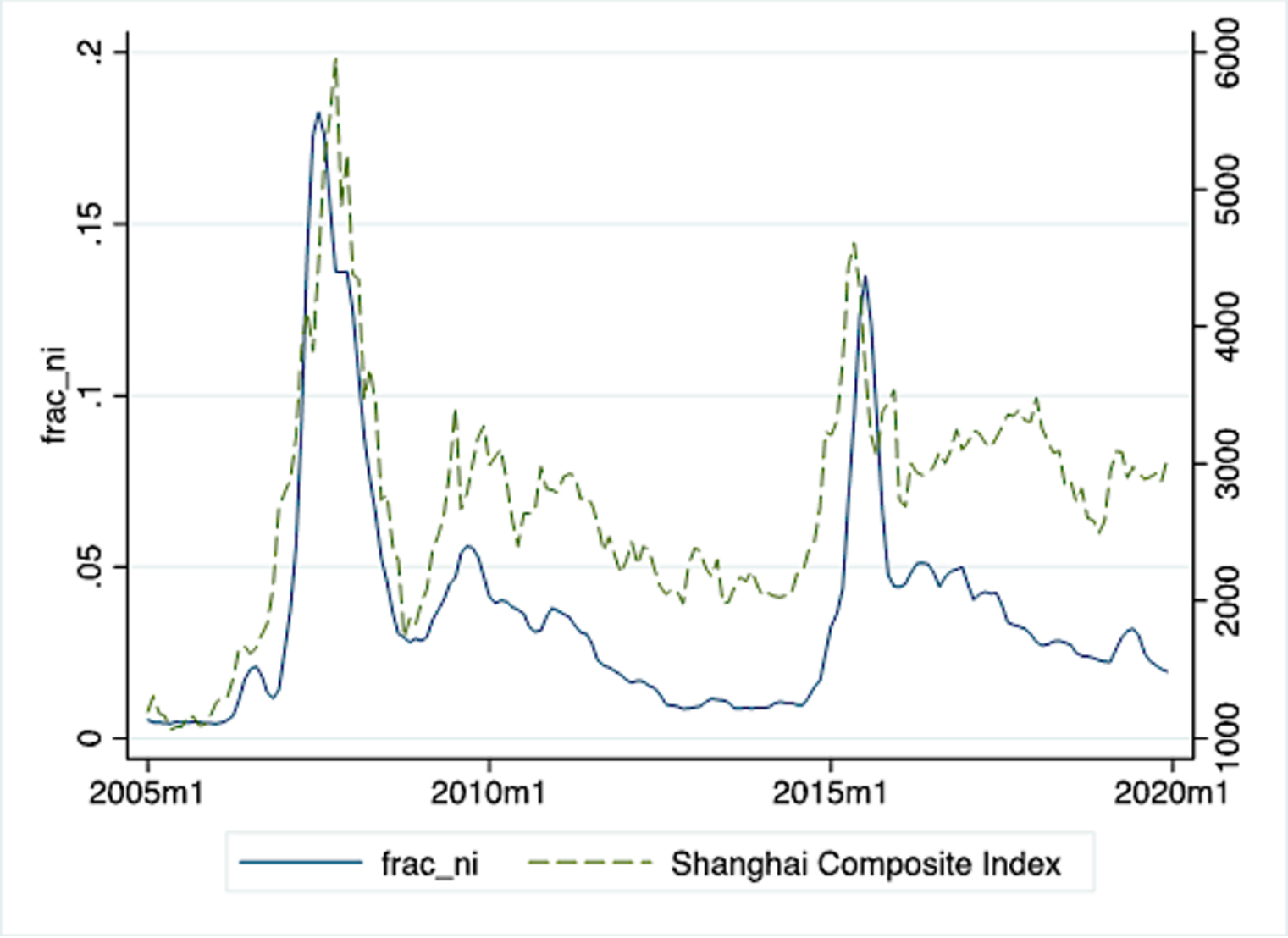
J:Sorting horizon	I: Holding horizon 1d	2d	3d	4d	5d	10d
1d	0.0021 (7.06)	0.0007 (1.98)	0.0004 (0.94)	0.0001 (0.32)	-0.0015 (-3.07)	-0.0010 (-1.77)
2d	0.0003 (1.24)	-0.0011 (-2.85)	-0.0015 (-3.40)	-0.0029 (-5.57)	-0.0044 (-7.65)	-0.0032 (-4.38)
3d	-0.0001 (-0.67)	-0.0014 (-4.08)	-0.0029 (-6.29)	-0.0044 (-7.91)	-0.0055 (-8.90)	-0.0038 (-4.41)
5d	-0.0012 (-5.98)	-0.0031 (-8.76)	-0.0045 (-9.25)	-0.0054 (-9.12)	-0.0060 (-8.75)	-0.0043 (-3.94)
10d	-0.0006 (-3.31)	-0.0017 (-4.49)	-0.0022 (-4.02)	-0.0026 (-3.79)	-0.0029 (-3.46)	-0.0009 (-0.62)

- Daily price limits: $+/-$ 10% per day for normal stocks
- The economic magnitude reduced by about 40%, but still highly significant

Data Description

- Account-level transaction data from the Shenzhen Stock Exchange
  - Each individual account is identified by a unique ID
  - 2005 to 2019
- 3 retail investor groups
  - **New investors (New)**: accounts less than 3 months and with a balance value less than 3 million RMB (around 0.5m USD)
  - **Experienced investors (Exp)**: accounts older than 3 months and with a balance value less than 3 million RMB
  - **Large investors (L)**: accounts with a balance larger than 3 million
- 2 institutional investor groups
  - **Mutual funds (MF)**
  - **Other institutions (OI)**

Fraction of New Investors



Characteristics of New Investors

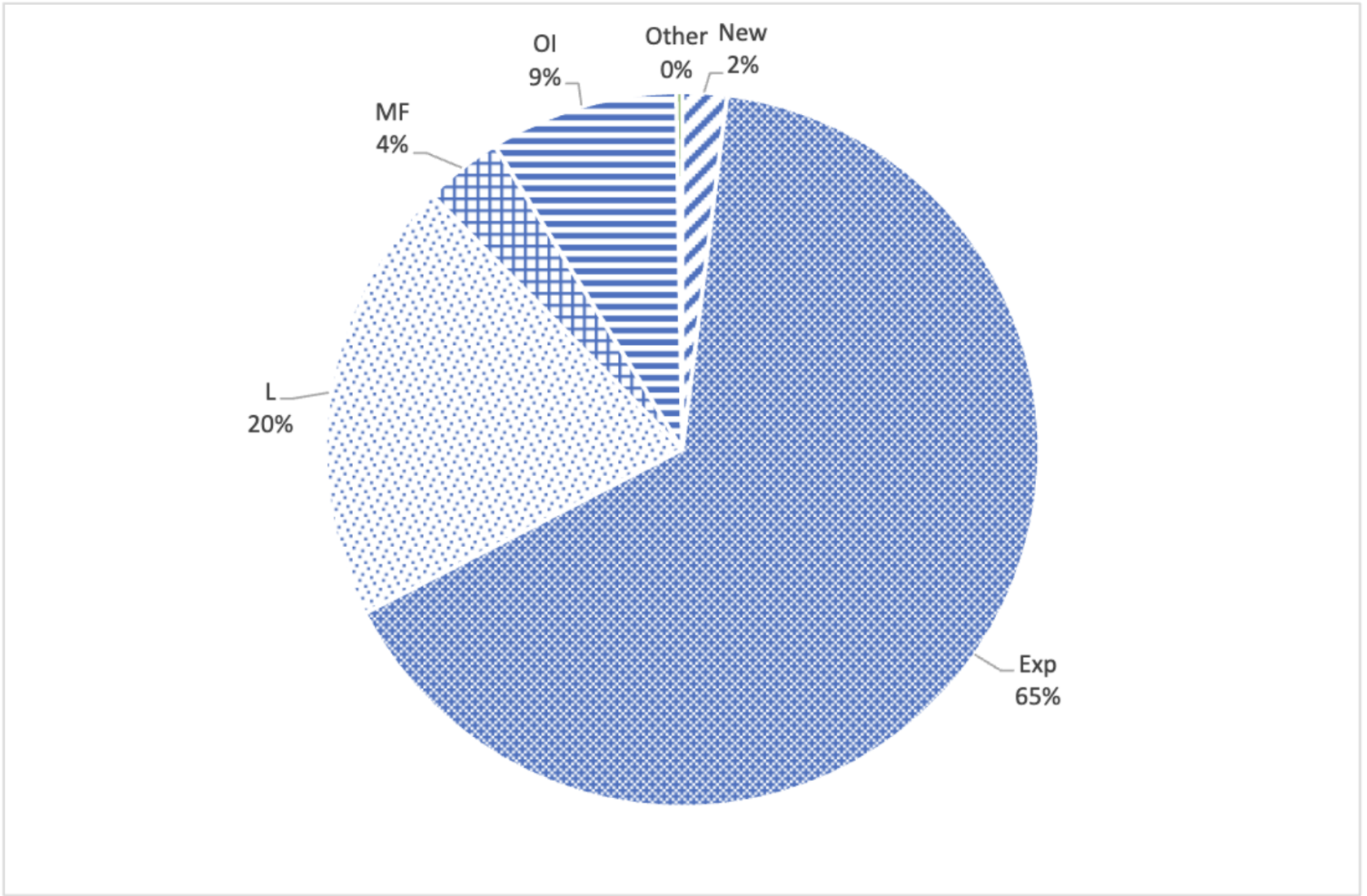
Panel A: Age and Gender

	Age		Male Ratio	
Year	New	Retail	New	Retail
2005	36.26	44.28	0.57	0.55
2006	36.18	44.89	0.52	0.54
2007	34.82	42.29	0.53	0.54
2008	33.82	42.31	0.61	0.54
2009	34.37	42.25	0.55	0.54
2010	33.48	42.35	0.54	0.54
2011	32.86	42.70	0.57	0.55
2012	35.27	43.38	0.57	0.55
2013	36.88	44.12	0.57	0.55
2014	36.31	44.57	0.57	0.55
2015	33.46	42.71	0.59	0.56
2016	33.45	42.05	0.56	0.56
2017	34.53	42.07	0.56	0.56
2018	35.31	42.39	0.56	0.56
2019	36.50	42.79	0.57	0.56

Panel B: Daily turnover

	New	Exp	L	MF	OI
Turnover	18.12%	8.03%	3.26%	1.98%	1.66%

Composition of Trading Volume



New Investor as a Sharp Measure of Noise Trading

1. The arrival of new investors negatively predicts market returns
   - time-series reg

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- For stock i and month m,

$$Return_{i,m+1} = Netbuy^{G}_{i,m} + X_{i,m} + \epsilon_{i,m}. \quad (1)$$

  - *Netbuy* equals the net purchase minus sales by a group of investors over month m, scaled by market cap

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  - X represents a set of stock characteristics, including size, turnover, BM, past month return, past year return, volatility, max, and illiquidity

New Investors as Noise Traders

	Ret_{m+1}				
$Netbuy(New)_m$	-0.00347				
	(-5.80)				
$Netbuy(Exp)_m$		-0.00032			
		(-10.75)			
$Netbuy(L)_m$			0.00038		
			(6.85)		
$Netbuy(MF)_m$				0.00021	
				(4.58)	
$Netbuy(OI)_m$					0.00018
					(6.04)
N	108303	108303	108303	108303	108303
R^2	0.12	0.12	0.12	0.11	0.11

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- the number for $Netbuy(Exp)$ is 0.96%
- for L, MF, and OI, associted with 0.63%, 0.46%, and 0.31% increases in returns, respectively

How Investors React to Daily Past Returns

For stock i and day d, we run a Fama-Macbeth regression,

$$Netbuy^{G}_{i,d+1} = Ret_{i,d} + Ret_{i,d-5\to d-1} + Ret_{i,d-21\to d-6} + X_{i,d} + \epsilon_{i,d} \quad (2)$$

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	New	*Exp*	*L*	*MF*	*OI*
Ret_d	2.71965 (10.03)	-1.73815 (-1.39)	-14.0692 (-23.94)	11.56274 (20.03)	-0.29133 (-0.52)
$Ret_{d-5\to d-1}$	0.11478 (2.67)	-5.69894 (-16.02)	0.23111 (1.74)	3.51895 (16.67)	0.99036 (8.57)
$Ret_{d-21\to d-6}$	-0.00569 (-0.45)	-0.80944 (-6.71)	-0.27761 (-5.72)	0.86031 (10.85)	0.06882 (1.36)
N	2402764	2402764	2402764	2402764	2402764
R^2	0.079	0.064	0.063	0.052	0.037

Explain Daily Momentum

For stock i and day d, we run a Fama-Macbeth regression,

$$Ret_{i,d+1} = Ret_{i,d} + Netbuy^{G}_{i,d+1} \times Ret_{i,d} + Netbuy^{G}_{i,d+1} + X_{i,d} + \epsilon_{i,d} \quad (3)$$

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	New			Exp		
	Ret_{d+1}	$Ret_{d+2\to d+6}$	$Ret_{d+2\to d+11}$	Ret_{d+1}	$Ret_{d+2\to d+6}$	$Ret_{d+2\to d+11}$
Ret_d	0.02760 (6.05)	-0.03760 (-6.10)	-0.00023 (-0.03)	0.03274 (6.77)	-0.05185 (-8.49)	-0.02265 (-2.89)
$Netbuy_{d+1}$	-0.00718 (-12.57)	-0.00226 (-8.20)	-0.00272 (-7.81)	-0.00248 (-43.67)	-0.00067 (-14.60)	-0.00083 (-14.53)
$Ret_d * Netbuy_{d+1}$	0.13504 (17.35)	-0.03950 (-5.51)	-0.07682 (-8.36)	0.01028 (17.87)	-0.00451 (-6.04)	-0.00556 (-5.95)
Control	Yes	Yes	Yes	Yes	Yes	Yes
N	2402764	2402764	2402764	2402764	2402764	2402764
R^2	0.126	0.102	0.108	0.252	0.105	0.111

Explain Daily Momentum

	Large			MF		
	Ret_{d+1}	$Ret_{d+2\to d+6}$	$Ret_{d+2\to d+11}$	Ret_{d+1}	$Ret_{d+2\to d+6}$	$Ret_{d+2\to d+11}$
Ret_d	0.05646 (13.16)	-0.04544 (-7.69)	-0.01384 (-1.70)	0.02165 (5.19)	-0.06135 (-10.48)	-0.03481 (-4.49)
$Netbuy_{d+1}$	0.00168 (36.23)	0.00049 (10.99)	0.00064 (9.57)	0.00257 (26.18)	0.00082 (9.03)	0.00114 (7.20)
$Ret_d * Netbuy_{d+1}$	-0.00670 (-9.62)	0.00479 (3.24)	0.00717 (4.50)	-0.00949 (-9.22)	0.01253 (7.27)	0.01896 (8.11)
Control	Yes	Yes	Yes	Yes	Yes	Yes
N	2402764	2402764	2402764	2402764	2402764	2402764
R^2	0.153	0.103	0.100	0.142	0.102	0.108

Who Drives Daily Momentum

- A horse-race regression with all groups' *Netbuy*
  - *OI* is omitted

Who Drives Daily Momentum

- A horse-race regression with all groups' *Netbuy*
  - *OI* is omitted
  - New investors' netbuy exhibits strongest effect
  - *L* and *MF* counterbalance these price effects

	Ret_{d+1}	$Ret_{d+2\to d+6}$	$Ret_{d+2\to d+11}$
Ret_d	-0.00489 (-0.99)	-0.04531 (-6.85)	-0.01049 (-1.31)
$Ret_d * Netbuy(New)_{d+1}$	0.16582 (17.50)	-0.01698 (-2.52)	-0.04744 (-5.31)
$Ret_d * Netbuy(Exp)_{d+1}$	0.00446 (5.17)	-0.00465 (-3.20)	-0.00474 (-2.59)
$Ret_d * Netbuy(Large)_{d+1}$	-0.00215 (-2.35)	0.00046 (0.27)	0.00082 (0.43)
$Ret_d * Netbuy(MF)_{d+1}$	-0.00095 (-0.86)	0.00807 (3.66)	0.01239 (4.43)
Control	Yes	Yes	Yes
N	2402764	2402764	2402764
R^2	0.301	0.128	0.132

Up vs Down Market

New investors pay more attention during bullish market, thus daily momentum effect should be stronger

- Days with market returns above ("Market Up") and below the median ("Market Down")

Dependent Variable:	Ret_{d+1}		$Netbuy(New)_{d+1}$	
	Market Up	Market Down	Market Up	Market Down
Ret_d	0.06957 (12.64)	0.03112 (6.63)	3.64145 (7.03)	1.79886 (12.41)
$Ret_{d-5\to d-1}$	-0.01816 (-13.46)	-0.00742 (-5.29)	0.24206 (2.79)	-0.01236 (-0.47)
$Ret_{d-21\to d-6}$	-0.00154 (-1.98)	0.00065 (0.89)	0.03811 (1.44)	-0.04945 (-4.70)
Control	Yes	Yes	Yes	Yes
N	1363327	1419546	1170077	1232687
R^2	0.083	0.085	0.089	0.069

Daily Momentum: International Evidence

- Out of 21 emerging markets in our sample, 14 of them exhibit significantly positive value-weighted daily momentum patterns

	Brazil	Chile	China	Czech	Egypt	Greece	India
VW	-0.0016	0.0031	0.0013	0.0156	0.0079	0.0029	-0.0001
	(-5.86)	(12.70)	(6.64)	(10.40)	(18.14)	(6.44)	(-0.11)
EW	-0.0058	0.0042	0.0011	0.0282	0.0087	0.0002	-0.0048
	(-23.47)	(17.54)	(5.74)	(16.14)	(19.63)	(0.28)	(-5.51)
	Indonesia	Israel	Malaysia	Mexico	Pakistan	Philippines	Poland
VW	-0.0084	0.0060	-0.0050	0.0043	0.0029	-0.0049	-0.0016
	(-9.61)	(16.09)	(-20.72)	(8.43)	(6.27)	(-11.82)	(-5.72)
EW	-0.0167	0.0065	-0.0144	0.0047	-0.0055	-0.0122	-0.0096
	(-17.12)	(16.36)	(-24.82)	(8.96)	(-9.29)	(-32.34)	(-21.60)
	SaudiArabia	SouthAfrica	SouthKorea	Taiwan	Thailand	Turkey	Vietnam
VW	0.0016	0.0014	0.0033	0.0018	-0.0009	0.0018	0.0032
	(6.56)	(4.06)	(10.69)	(6.76)	(-2.73)	(4.47)	(4.93)
EW	0.0013	-0.0082	0.0025	0.0032	-0.0056	0.0007	-0.0043
	(7.06)	(-14.71)	(8.23)	(11.03)	(-12.20)	(1.77)	(-5.84)

Daily Momentum: International Evidence

- For developed markets, most markets appear to exhibit **daily reversal**

	Austria	Australia	Belgium	Canada	Denmark	Finland	France
VW	0.0020	-0.0034	-0.0019	-0.0159	-0.0005	-0.0027	-0.0005
	(5.96)	(-15.40)	(-11.49)	(-18.96)	(-2.32)	(-12.22)	(-3.60)
EW	-0.0001	-0.0211	-0.0042	-0.0610	-0.0070	-0.0089	-0.0032
	(-0.36)	(-46.39)	(-22.87)	(-38.97)	(-21.24)	(-37.73)	(-17.01)

	Germany	HongKong	Italy	Japan	Netherlands	NewZealand	Norway
VW	-0.0010	-0.0001	-0.0003	-0.0017	0.0005	-0.0013	-0.0024
	(-5.49)	(-0.29)	(-2.00)	(-11.38)	(2.76)	(-6.04)	(-10.68)
EW	-0.0067	-0.0052	-0.0031	-0.0041	-0.0017	-0.0060	-0.0070
	(-18.01)	(-15.40)	(-20.89)	(-30.72)	(-9.03)	(-26.27)	(-23.36)

	Portugal	Singapore	Spain	Sweden	Switzerland	UK	USA
VW	-0.0021	-0.0069	0.0002	-0.0018	-0.0007	0.0020	-0.0015
	(-3.00)	(-21.54)	(1.36)	(-8.86)	(-5.04)	(11.07)	(-7.76)
EW	-0.0048	-0.0219	-0.0020	-0.0096	-0.0049	0.0059	-0.0189
	(-7.99)	(-24.67)	(-12.02)	(-29.41)	(-35.93)	(16.31)	(-30.64)

Market Up&Down and Daily Momentum in International Markets

Among the 18 markets that exhibit daily momentum, 17 markets have stronger momentum effects during the bullish periods

	Austria	Chile	China	Czech	Egypt	Greece
Up	0.0021	0.0038	0.0018	0.0149	0.0091	0.0038
	(4.6)	(10.79)	(5.92)	(6.29)	(15.6)	(5.26)
Down	0.0019	0.0023	0.0008	0.0164	0.0066	0.0021
	(4.24)	(7.82)	(3.28)	(9.02)	(11.75)	(3.9)
Up − Down	+	+	+	−	+	+
	Israel	**Mexico**	**Netherlands**	**Pakistan**	**SaudiArabia**	**SouthAfrica**
Up	0.0073	0.0055	0.0009	0.0041	0.0024	0.0020
	(13.1)	(6.69)	(3.46)	(6.41)	(7.31)	(3.86)
Down	0.0047	0.0032	0.0001	0.0016	0.0008	0.0007
	(10.38)	(5.36)	(0.54)	(2.65)	(2.31)	(1.81)
Up − Down	+	+	+	+	+	+
	SouthKorea	**Spain**	**Taiwan**	**Turkey**	**UK**	**Vietnam**
Up	0.0046	0.0005	0.0021	0.0035	0.0020	0.0046
	(10.01)	(2.06)	(5.73)	(5.4)	(7.93)	(4.67)
Down	0.0020	0.0000	0.0015	0.0001	0.0019	0.0019
	(5.31)	(-0.22)	(4.01)	(0.24)	(7.64)	(2.47)
Up − Down	+	+	+	+	+	+

Conclusion

- We uncover daily momentum in the Chinese stock market
  - Stronger during bullish markets
- New investors serve as a particularly reliable measure of market sentiment and noise trading
- The trading of new investors is directly related to daily momentum
- Daily price momentum is also observed in other emerging markets

Appendix

- Time-series Regressions back

	Mkt_ret_{m+1}	Mkt_ret_{m+3}	Mkt_ret_{m+6}	Mkt_ret_{m+12}
Frac_ni	-0.5289 (-1.48)	-2.39608 (-2.20)	-6.6792 (-2.70)	-15.80738 (-2.82)
Mkt_vol	0.03633 (0.87)	0.35082 (2.48)	0.73012 (3.02)	1.77305 (4.04)
Mkt_turnover	-0.00008 (-0.42)	-0.00058 (-1.22)	-0.00121 (-1.33)	-0.00144 (-0.85)
Mkt_BM	0.04942 (0.86)	0.19951 (1.19)	0.22204 (0.770	0.30962 (0.69)
Mkt_ret_m	0.14782 (2.3)	0.43617 (2.49)	0.85764 (3.01)	1.02343 (2.52)
Mkt_ret_{m-12}	0.03414 (1.25)	0.10962 (1.44)	0.21454 (1.43)	0.37635 (1.65)
Constant	-0.01968 (-0.50)	-0.15201 (-1.33)	-0.12471 (-0.54)	-0.15404 (-0.38)
N R^2	180 0.048	180 0.151	180 0.272	180 0.393