

Individual trading positively related to future returns

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A new study in the *Journal of Finance* reveals that individual trading is positively associated with future short-horizon returns. Documenting a pattern for individual investor trading in the U.S., researchers show that prices go up in the month after intense buying by individuals and go down after intense selling by individuals.

Ron Kaniel, PhD, of Duke University, Gideon Saar of Cornell University, and Sheridan Titman of the University of Texas at Austin, examined the trading activity of individuals using a data set provided by the New York Stock Exchange.

The study documented excess returns in the month following intense buying by individuals and negative excess returns after individuals sell. Results also found that the trades of individuals can be used to forecast future returns. Stocks experience statistically significant excess returns of 0.80% in the 20 days following a week of intense buying by individuals and 0.33% following a week of intense individual selling.

The authors conclude that "these results, which suggest that individual investors implicitly provide liquidity to institutional investors, highlights the importance of better understanding the roles played by different market participants."

Source: Wiley-Blackwell

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