

Investor flows and stock return

Empirical evidence from Stock Exchange of Thailand

Abstract

This paper examines the relationship between investor flows and stock returns on the Stock exchange of Thailand from December 1, 2006 to April 1, 2010. Using a VAR framework, the study finds strong evidence that foreign flows have significantly positive impact on the return for all stocks across board. Increase in foreign flows lead to increases in price for all portfolios i.e. SET50, SET100, SET index and the value weighted portfolio of stock outside SET100. In addition, the evidence finds portfolio returns have significantly positive impact on retail flows and negative on institution flows. The evidence supports the momentum trading behavior that price increases lead to shift in demand of retail investors. Our analysis also finds evidence that contradicts long standing stylized fact foreign investors do not chase past return.