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Investor Herding During Bear Phases: A Study of Emerging Markets

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Abstract

This paper investigates the phenomenon of investor herding during bear market phases with a focus on emerging markets. Herding behavior refers to investors mimicking the actions of others rather than relying on their independent analysis. During bear markets, such behavior tends to intensify due to heightened uncertainty and fear of further losses. The study utilizes both qualitative and quantitative approaches, analyzing data from secondary financial sources, investor surveys, and sentiment indices. The findings suggest that herding behavior is significantly more pronounced in emerging markets during downturns due to limited financial literacy, media influence, and the collective psychological need to conform. The study concludes by recommending educational reforms, regulatory interventions, and behavioral awareness programs to mitigate irrational collective behavior.

1. Introduction

Investor behavior under market stress is often irrational and emotionally driven. In emerging markets, where financial education and regulatory frameworks are still maturing, these behaviors are even more volatile. One such behavior is herding, where investors tend to follow the majority, particularly during times of uncertainty such as bear markets.



Diagram 1: Phases in stock market

2. Literature Review

Numerous studies have examined herding behavior in developed markets, but fewer have focused on emerging economies. Key works include:

- Christie and Huang (1995): Cross-sectional standard deviation as a measure of herding.
- Bikhchandani and Sharma (2001): Theoretical frameworks for herd behavior.
- Chiang and Zheng (2010): Empirical analysis of herding in Asian markets.

This paper aims to build on these findings by contextualizing them within the specific dynamics of emerging markets.

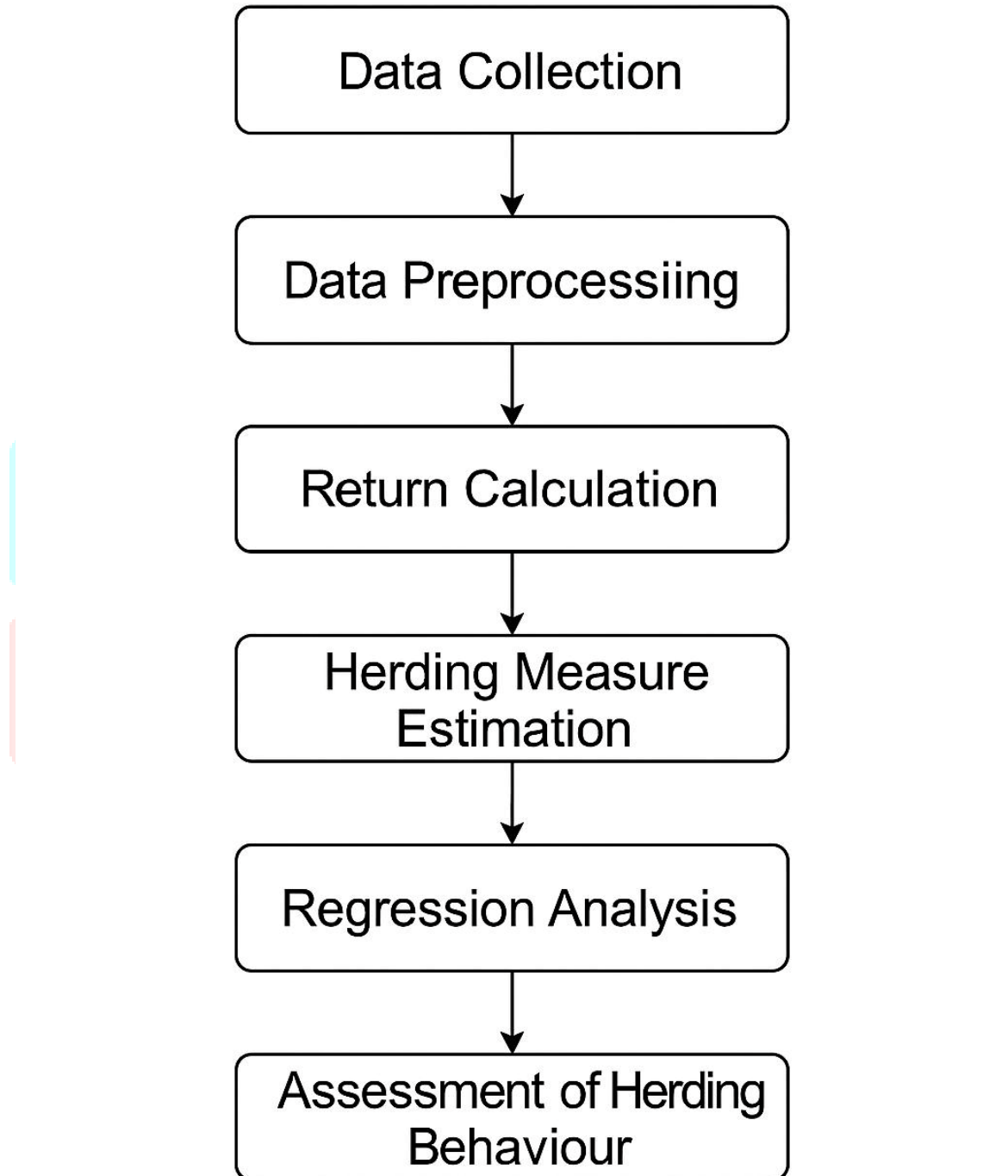
3. Methodology

This study uses a mixed-methods approach:

- Quantitative Data: Stock price movements and trading volumes from 5 emerging markets (India, Brazil, South Africa, Vietnam, and Indonesia) during 3 major bear markets (2008, 2020, 2022).
- Qualitative Data: Investor surveys, media content analysis, and expert interviews.
- Herding Measurement Techniques: Cross-sectional standard deviation (CSSD) and cross-sectional absolute deviation (CSAD).



Methodological Framework for Identifying Herding Behaviour in Stock Market



Flowchart 1 :Methodological Framework for Identifying Herding Behavior

4. Results and Discussion

The results confirm intensified herding behavior during bear markets across all five case study countries:

- India & Brazil: High media influence and group panic selling.
- South Africa: Political events amplified market fear.
- Vietnam & Indonesia: Retail investors dominated, showing stronger herding effects.

Key drivers of herding included:

- Fear of missing out on collective sell-offs.
- Heavy reliance on social media and financial influencers.
- Lack of diversification and poor risk management

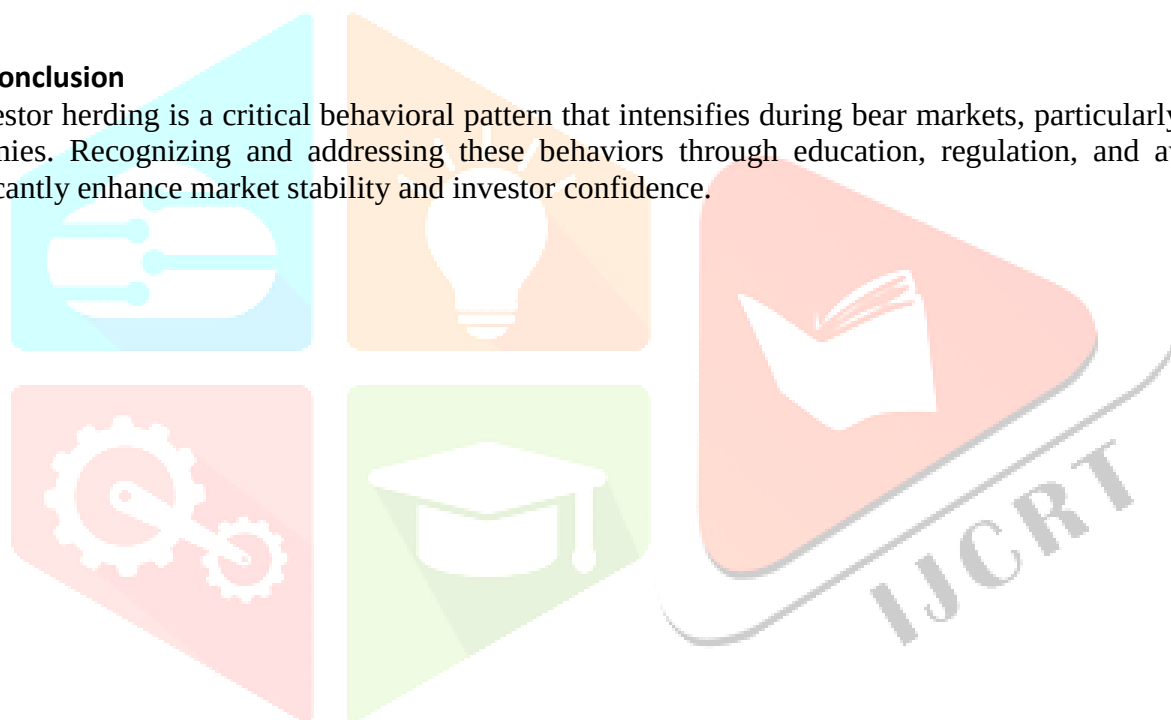
5. Policy Recommendations

To curb irrational herding:

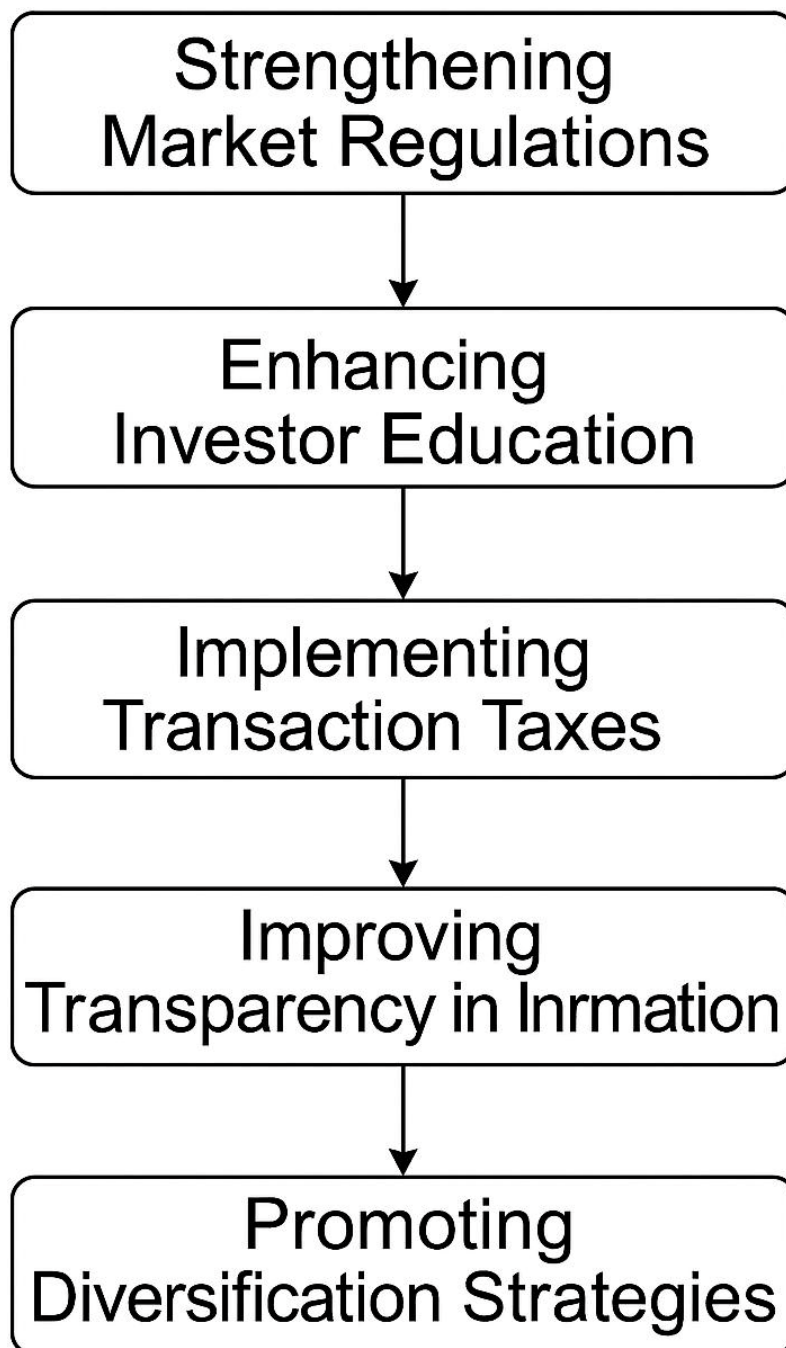
1. Investor Education Programs
2. Media Regulation & Financial News Auditing
3. Behavioral Finance Courses in School Curricula
4. Centralized Sentiment Monitoring by Regulators

6. Conclusion

Investor herding is a critical behavioral pattern that intensifies during bear markets, particularly in emerging economies. Recognizing and addressing these behaviors through education, regulation, and awareness can significantly enhance market stability and investor confidence.



Strategic Interventions to Reduce Herding Behaviour in Stock Market



Flowchart 2: Strategic Interventions to Reduce Herding Behaviour

References

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