Stock price synchronicity, crash risk, and emerging-market institutional trading

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Abstract

This study examines the monitoring role of institutional traders in domestic stock market. We find that stock price synchronicity is negatively associated with domestic institutional ownership, whereas foreign institutional trading does not significantly shape synchronicity. Such relationships suggest that domestic institutional ownwership serves a monitoring role to deter firm managers' information hoarding. We further find that domestic instutional ownership increases firms' crash risk, implying that firms are more inclined to reveal negative news when the monitoring is stronger. In contrast, foregin institutional ownership does not contribute to crash risk. Our results remain robust to the changes in the crash risk measrues and hold after controlling for chaebol or largest shareholders' ownwerships.

Keywords: Agency problem; Institutional ownership; Crash risk; Stock price synchronicity

JEL classification: G14; G2; G3