Revista Catarinense da CIÊNCIA CONTÁBIL

ISSN 2237-7662, Florianópolis, SC, v. 18, 1-18, e2730, 2019

DOI: 10.16930/2237-766220192730
Available on http://revista.crcsc.org.br

CRCSC CONSELHO REGIONAL DE CONTABILIDADE DE SANTA CATARINA

BEHAVIORAL FINANCE: HERD BEHAVIOR ANALYSIS ON [B]³ LISTED COMPANIES

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ABSTRACT

We based our work on the Prospect Theory (Kahneman & Tversky, 1979), from the heuristic perspective of the herd effect, and our general objective was to investigate the relationship between the subprime crisis, the news publication and the size of the company with behavior herd in the 100 companies with the largest trading volumes listed on the [B]³ - Brazilian Stock Exchange, from 2007 to 2016. In order to achieve this, we initially employed, as methodology, the *cross-sectional absolute deviation of returns* (CSAD) model, proposed by Chang, Cheng and Khorana (2004), to identify the presence of the herd effect. The relationships among the variables were analyzed through the regression of the panel data model with fixed effects and robust standard errors. In general, the results found indicated a positive relationship among the herd behavior, the subprime crisis and the publication of good news; however, revealed a negative relationship with the size of the company. For the Bad News variable, the results did not show statistical signifimayce (p-value > 0.26), so the hypothesis of a negative relationship between the herd effect and the bad news was rejected. Concluding, investors are influenced by the positive news about companies, and this tends to generate in them an investment behavior similar to that presented by the larger groups of investors, i.e., the herd effect.

Keywords: Herd Effect. Crisis. News.

1 INTRODUCTION

Finance is considered one of the pillars of organizations because prior to the main business decisions, managers seek to make an accurate analysis of their financial situation. Within finance, there are some aspects of thinking, such as Traditional Finance, which was based on a microeconomic approach, having as a central paradigm the total use of rationality in financial decisions by economic agents. In addition to this, there is the Modern Finance, based on the financial model of the Efficient-market Hypothesis (EMH), based on the maximum return expected and rational expectations, considering that investors order their preferences in a logical and rational way, seeking to maximize the returns from their investments (Lucena, Santos & Assis; Santos, 2014).

Submitted on 08/05/2018. **Reviewed on** 02/20/2019. **Accepted on** 03/07/2019. **Published on** 01/04/04.

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