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Are Institutional Investors the cause for Volatile Stock Markets ?[1]

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Abstract

Research work aims to analyze the volatility caused by the institutional investors namely – foreign institutional investors, domestic institutional investors and mutual funds in the Indian bourses. ARMA (p,q) model has been adopted after following the Box Jenkins methodology. Three GARCH models have been applied each on the daily gross purchases, gross sales, and net investments made by each of the three institutional investors to have a fair comparison. The selected time frame spans from 2010-2020 because of its historical significance in terms of various ups and downs in the Indian economy. The results suggest that foreign investors are the destabilizers in the Indian economy while mutual funds exhibit active participation in lowering the stock market volatility. Lastly, domestic institutional investors exhibit the role of passive investors due to their inability in influencing the volatility in the stock market significantly.

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Keywords : Volatility; Stock Market; Institutional; Investors; ARMA; GARCH; NSE; GDP; India

I. Introduction

THE STOCK MARKET of every country is associated with the inherent trend of volatility. Volatility can be termed as the transitory movement of the stock index away from its fundamental value. Technically pointing out, the transitory movement can either be upwards or downwards but the volatility in the stock market is majorly perceived to be associated with the downfall of the stock index. The reason behind this can be attributed to the *Prospect Theory* of behavioral finance. In other words, an investor weighs the pain of loss more than the joy of gain. The concept of stock market is

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can introduce a structural break in the study to compare the volatility in two different time frames. The present study, however, checked the presence of structural break and found it towards the end of the selected time frame. Further, Boot and Pick (2020) claimed that the research findings do not improve significantly when the structural break is present towards the end of the time period. Thus, the budding researchers can challenge the findings of Boot and Pick (2020). Lastly, a comparison in the stock market volatility with respect to Nifty and Sensex can be undertaken by the future researchers on the basis of institutional investor trading activities.

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