

# **Are Institutional Investors Prudent? Evidence from an Emerging Market**

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## **Are Institutional Investors Prudent? Evidence from an Emerging Market**

### **Abstract**

To identify whether institutional investors are prudent or speculative, this paper uses data from an emerging market, Taiwan to classify firm attributes based on prudent investment characteristics into three dimensions (financial characteristics, corporate governance mechanism and speculative intensity) and investigates the relationship between institutional ownership and the three domains of firm attributes. The empirical results indicate that the common features attracting institutional holdings fall on large firm size and low speculative intensity, implying that as taking the level of institutional ownership into account, the three types of institutional investors in Taiwan are averse to highly speculative stocks. However, they are not by all means prudent. Only foreign institutions are more likely to preserve stocks of prudent characteristics as well as better corporate governance mechanisms. Mutual funds, on the contrary, do exploit their informational advantages and proprietary traders trade off their informational advantages against their premise on the prudent regulations and governance requirements. We also find that institutional are more likely to form homogeneous beliefs in selling and buying stocks as facing the financial crisis. They adhere to the prudent investment rules during the crisis period.

**Keywords:** institutional investors, prudent, speculative, corporate governance, speculative intensity