

Title:

**Investor-herding and risk-profiles: A State-Space model based assessment**

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Understanding Investor-herding and risk-profiles link provides an insight into the riskiness of a market, which carries implications for portfolio diversification and foreign investors. As investors may herd towards a particular factor, sector or style to optimize their investment returns for combating market conditions, examining herding towards a specific factor or style helps comprehend investor risk profiles. This paper studies investor-herding and risk-profiles link and the implied riskiness of a market using Australian stock market data. We use quantile regression for capturing the heterogeneous responses of stock-returns to market movements and other factors and their variable effect on herding, and State-Space models for extracting the herd dynamics and the proportion of signal explained by herding (PoSEH). We find that herding and adverse-herding can emerge during the worst and the best performance days of stock returns. The PoSEH is not homogeneous based on information from the average level and the extreme quantiles of the returns distribution. Market volatility impacts level of herding, and its significant negative influence on PoSEH has the most (least) effect on high (low) performance days of stock returns. The dominance of herding towards Book-to-Market factor among others, and the occurrence of herding/adverse-herding during calmer/turbulent periods when the investor confidence is high/low implies risk-aversion behaviour and the presence of secure environment in the market.

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