

Leading the Herd to Greener Pastures: When Trade Imitation is the Most ‘Profitable’ Form of Flattery

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Abstract

In what we believe to be a world first, we analyze fund managers’ daily trades and the identity of all brokers for each trade. In an ex-ante fashion we identify “leaders” – the funds’ most “disguised” trade packages which utilize multiple brokers over multiple days. We find that leader trades are highly profitable and typically followed by rival managers – “followers”. Leaders’ profitability is diminishing in the number of followers over a one-year horizon. Better disguise is successful in raising profitability and preventing following. This finding, together with high profitability of early following, suggests that following is deliberate. We also show that followers aid the price discovery process.

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