

Review of: "Sectoral Herding Contagion on Eve of New Year"

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Potential competing interests: No potential competing interests to declare.

Sectoral Herding Contagion on Eve of New Year

Abstract:

This section provides a clear overview of the study's objectives, methodology, findings and identifies the main goal of the study (to investigate herding contagion between US and Chinese stock markets on the eve of the new year). Although the exclusion of Covid-19 impact on stock markets is justified, it would be helpful to briefly mention the significance of excluding Covid-19 and its potential influence on the results. Furthermore, the abstract's first sentence should be about the problem, motivation, or question. The second sentence should be about what is known from the literature and on the third sentence, should be explained what is being done and how. Considering this, maybe the beginning of the abstract could be improved. It is not usual to include references in the abstract. Is the reference included imperative? Maybe not. Please consider this.

Keywords

Keywords are informative and reflect the contents of the manuscript

Introduction:

1. It is stated "EMH (1970)", however it should be identified Fama (1970), or "The EMH of Fama (1970).
2. For the first time that is used any acronym, it should be defined (e.g, Efficient Market hypothesis (EMH))
3. This section provides relevant context by discussing the cultural significance of the new year and its optimistic influence on stock markets. It also highlights the discrepancy between observed abnormal returns during the new year and the Efficient Market Hypothesis (EMH), setting the stage for investigating behavioral anomalies like herding behavior.

Literature review: herding behavior + 2. Contagion

1. My first suggestion is to call this section as "2. Literature review, and then introduce two sub-sections: 2.1. Herding behavior ; 2.2. Contagion. After the point 2. It should be made a introduction to the literature review that: i) would provide a context for why the review is essential in the context of the overall study; ii) briefly explain the relevance and significance of studying herding behavior and contagion in financial markets, as well as how this review contributes to

the paper's objectives.

2. It is stated that "Chiang and Zheng (2010) investigated that herding behavior does not exist in the participants of USA and Latin American countries.". Maybe it will be more correct if it is stated "Chiang and Zheng (2010) concluded that herding behavior does not exist in the participants of USA and Latin American countries."
1. The literature review provides an overview of herding behavior and contagion in financial markets, covering various studies and their findings. However, some of the cited studies are outdated (with publications ranging from 1988 to 2021. While older references can be valuable for historical context, it is essential to include more recent and relevant studies to demonstrate the current state of research in the field.), and it would be beneficial to include more recent references to reflect the current state of research in this field. It would be valuable to include more recent studies on financial contagion and its relationship with herding behavior. Moreover, the literature review should elaborate on the existing knowledge gap that the current study aims to fill. What specific contributions does this study make to the existing literature? This would strengthen the rationale for conducting this research.
4. Although the literature review provides a general overview of the findings from different studies, it lacks in-depth analysis and synthesis of these findings. The literature review should critically analyze the studies' methodologies, sample sizes, and limitations to provide a more comprehensive understanding of the research landscape on herding behavior and contagion. Please, consider doing it.
5. The hypotheses (H1 and H2) are typically presented in the methodology section, where the research design and approach are described. They should not be included within the literature review.
6. There are some grammatical errors and unclear sentences throughout the literature review. Please, proofread the text and ensure that the writing is clear and concise.
7. Some concepts/terms (e.g., "conditional Capital Asset Pricing Model" and "fundamental contagion,") are introduced without adequate explanation. Please, consider providing brief definitions or references to these concepts to help readers understand their relevance.

Research Methodology

This section presents the approach, data sources, and methods/techniques used to evaluate herding behavior and contagion in the New York and Shanghai stock markets. Generally, the overall methodology is sound. However, it could be improved.

1. The Thomson Reuters Datastream is used to access daily stock prices of all companies. However, it is not provided specific information about the size of the dataset and how the sample of companies was selected. Provide these details would enhance the transparency and replicability of the study.
2. Although the description of the herding behavior methodology is relatively clear, it would be helpful to provide more context and rationale for selecting the Cross-Sectional Absolute Deviation (CSAD) approach. Why was CSAD chosen over other herding behavior measurement methods, and how has it been used in previous studies?
3. It is stated that "Tools and techniques employed to determine the contagion due to herding in stock markets are in line

with (Galariotis et al., 2015; Wahyudi et al., 2018).” However, it is not provided a clear explanation of these tools and techniques and should be done in order to enhance the methodology's comprehensiveness.

4. It is briefly mentioned the use of statistical significance thresholds of 1%, 5%, and 10%. However, it is lacking to specify how these significance levels are used in the analysis and the criteria for determining the presence or absence of herding and contagion effects.
5. The studies should be replicable. Given this, It should be introduced information about the software or programming language used for data analysis.
6. Financial markets and stock markets are dynamic systems. Thus, it's behavior changes over time. considering this, why are not applied dynamic methods (e.g., Dynamic Conditional Correlation (DCC) Model; Machine learning algorithms, among others).

Results and Discussion

1. The obtained results should be discussed considering previous studies findings on this subject.

Conclusion

This section is well-structured and effectively summarizes the main findings of the research. However, it can be improved.

1. It is stated, "non-linear term provides better results compared to other models". It could be clarified by explicitly mentioning which models it outperforms.
2. The conclusion accurately summarizes the main findings, including the presence of herding behavior and its variation across different industries and years. However, it would be helpful to include effect sizes or statistical significance levels to quantify the identified herding behavior and contagion.
3. The conclusion properly addresses the complexity of herding contagion and highlights that its characteristics may differ across markets and industries. However, to generalize the findings, it is necessary to acknowledge potential limitations and address the scope of the research. This could include discussing the representativeness of the selected stock markets and the generalizability of the results to other economies. Please consider this.
4. While the conclusion mentions that herding contagion remains present but negligible, it would be useful to suggest future research to explore the underlying reasons for this persistence.
5. It should be introduced a discussion of the practical implications of the findings for investors and policymakers.