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Trading Volume on the Tunisian Financial Market: An Approach Explaining the Hypothesis of Investors Overconfidence

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Abstract : This research provides an explanation of exchange incentives on the Tunis stock market from a behavioural point of view. The elucidation of the anomalies of excessive volume of transactions and that of excessive volatility cannot be done without the recourse to the psychological aspects of investors. The excessive confidence has been given the predominant role for the explanation of these phenomena. Indeed, when investors store increments, they become more confident about the precision of their private information and their exchange activities then become more aggressive on the subsequent periods. These overconfident investors carry out the intensive exchanges leading to an increase of securities volatility. The objective of this research is to identify whether the trading volume and the excessive volatility of securities observed on the Tunisian stock market come from the excessive exchange of overconfident investors. We use a sample of daily observations over the period January 1999 - October 2007 and we relied on various econometric tests including the VAR model. Our results provide evidence on the importance to consider the bias of overconfidence in the analysis of Tunis stock exchange specificities. The results reveal that the excess of confidence has a major impact on the trading volume while using daily temporal intervals.

Keywords : overconfidence, trading volume, efficiency, rationality, anomalies, behavioural finance, cognitive biases
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