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Locals, foreigners, and multi-market trading of equities: Intraday evidence from Thailand[☆]

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ABSTRACT

We study stock market orders and trades in a developing country, Thailand, where foreign ownership limits partially segment local and foreign investors into two distinct markets. Some foreigners forgo voting rights and distributions to trade on the "local board", while some locals forgo such benefits and pay a price premium to trade on the "foreign board". Regardless of nationality, these cross-market traders typically submit orders when liquidity is high, fill orders at relatively beneficial prices, exploit patterns in stock prices across markets, display profitable holding-period returns, and enhance price discovery. This suggests that skilled, informed trading that affects market quality does not depend on trader nationality.

1. Introduction

This paper examines a unique equity market structure. In Thailand, regulators and individual companies impose limits on the fraction of a company's equity that can be held by foreigners.[1] When

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[1] Prior to the 1997 Asian Crisis, all companies listed on the Thai exchange had to be legally "Thai", implying a maximum foreign ownership of 49%. The government imposed a tighter limit, 25%, in certain industries, such as banking. The heavily-traded companies in our sample were all listed prior to 1997.

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