PECULIARITIES OF THE INSTITUTIONAL INVESTORS' INFLUENCE ON THE STOCK MARKET STABILITY

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Summary. The paper examines the main effects of institutional investors' activity in the stock market. The author summarizes the approaches that explain institutional investors' decisions and their influence on the stability of the stock market. The conclusions about the effects of stock market volatility for economic development have been made.

Key words: *institutional investors, stock market, financial intermediary.*

Statement of the problem. Institutional investors' activity is highly intensive in financial markets in general and stock markets in particular. Their assets exceed USD 80 trillion, which are mainly invested into different types of securities. At the same time Ukrainian institutional investors' activity is increasing but remains quite low. That is why we can say that their presence on stock market will grow up and, as a consequence, influence stock market stability.

The aim of this research is to identify different types of institutional investors' activity in stock market and to examine their consequences for stock market stability.

Justification of scientific results. Institutional investors' activity in stock market can influence on prices of securities and their dominance in financial markets leads to increased volatility of financial assets' prices. On the other hand, there is a notion that normally institutional investors contribute to market stability because they have comprehensive information about financial assets. Excessive volatility exists only if the inner nature of financial assets generates fluctuations, which exceed average market volatility.

Institutional investors generate liquidity that lowers excessive volatility. Moreover, their presence in international financial markets assists in leveling of interest rate between local financial markets.

There are several points of view that support destabilizing influence of institutional investors in stock market. One approach states that institutional investors have huge funds invested in securities and any changes in their portfolios lead to price fluctuations of securities. What is worth, price instability is followed by herd behavior of institutional investors when they are trading the same securities simultaneously.

Herd behavior is very common among institutional investors firstly because they can evaluate efficiency of the investment decisions of other investors and copy them in case of satisfactory results. Secondly, financial results of particular investment fund compere with results of other funds. Unique strategy of portfolio allocation can be irrational because of unpredictable financial results. That is why investment portfolios of different funds are quite the same as to their structure and composition. Thirdly, institutional investors may react in the same way on external information (e.g. dividend payment or analytics' recommendations). It's another example of herd behavior which leads to changes of assets prices evoked by excess demand.

There is a notion that institutional investors do not influence significantly on stock market and one can't find examples of herd behavior or destabilizing effects. As was mentioned preciously, investors react simultaneously on fundamentals and their behavior causes rapid adaptation of assets prices to new information making financial markets more effective. Irrational behavior of individual investors is usually compensated by institutional investors that lead to market stability.

Completely opposite point of view on institutional investors' behavior states that their decisions are rational and take into account all changes in individual investors' behavior, all valid information, recommendations, and news. But these decisions will be the same only if evaluable information is interpreted identically by all investors. In practice it's impossible that's why herd behavior of institutional investors does not observe.

Another concept claims that institutional investors' influence in stock market is neutral. It means that they are not completely rational and at the same time they do not herd. Instead their actions are heterogenic: different investment strategies neutralize

each other and have no destabilizing effect on stock market. There is no extra demand for or supply of securities and their prices are at equilibrium point.

One more theory that explains institutional investors' role in stock market states that there are many uninformed investors who act irrationally. They believe that can forecast future prices of securities and, as a result, buy/sell them in unpredictable manner. Their actions trigger random price movements and institutional investors can't gain any advantages while stock market moves from its equilibrium.

Conclusions. To sum up we can give several reasons why institutional investors influence stock market:

- huge securities portfolios are owned by relatively small number of institutional investors, which act simultaneously using the same financial information;

- these investors act as authorized persons in asset management;

- stock market investments are considered as short-term, low-risk, highly-liquid investments;

- decision-making process of institutional investors is not so scrupulous as bank lending;

- stock market support is not considered as a primary function or obligation by institutional investors.

The common features of the stock market instability are active role of institutional investors in trading activities and cross-border investment flows, overreaction based on too optimistic forecasts, rapid price movements of financial assets, generated by usage of derivatives. This instability leads to important macroeconomic consequences, causes growth of borrowing costs for enterprises and government, creating conditions for uncertainty of economic development, decreasing volume of investment, contributes to ineffective financial resources allocation and high risk of losses.