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# THE INTERACTION BETWEEN FOREIGNERS' TRADING AND STOCK RETURNS: EVIDENCE FROM TURKEY

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*Abstract*

Using monthly data of foreign flows on Istanbul Stock Exchange (ISE) and employing a structural VAR model, we analyze the interaction between foreigners' trading and stock returns. We find that, in contrast to most of the available theory and repeated previous findings on other markets, foreign investors act in a contrarian manner with respect to past local returns in ISE, however only in rising markets. This rules out sentiment trading and naive momentum trading, although the same foreigners exhibit positive feedback trading with respect to global returns. Price pressure hypothesis is rejected. Although foreigners do not appear to have any local information advantage, we document evidence of predictive ability driven by push factors and uniquely accompanied by contrarian trading. Hence, our results contradict the previous conclusions that foreigners are uninformed positive feedback traders. Rather, they are a heterogeneous group dominated by sophisticated investors, who can rationally adjust their trading style.

*Keywords*: foreign flows; emerging stock markets; foreigners' trading behavior; feedback trading; informed trading