**Do institutional investors stabilize stock returns? Evidence from emerging IPO markets**

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**Abstract**

**Purpose**

The objective of this research is twofold: to investigate how institutional ownership is related to the stock return volatility of IPOs in an emerging market, and to examine the relationship between institutional ownership and underpricing.

**Design**

This paper investigates these relationships using White’s (1980) regression and 2x3 portfolios sorted by firm size and institutional holdings. The regression method examines the relationships across firms with different characteristics such as size, stock price, growth potential and type of investors. The data chosen for this sample cover the new equity issuances listed on the Thailand Stock Exchange (SET) for the period 2001–2019.

**Findings**

The empirical results suggest that institutional ownership is negatively associated with initial stock return volatility. This highlights the importance of institutional investors in maintaining stability in emerging stock markets. Additionally, it was found that institutional holding and underpricing are negatively correlated. The results are robust after controlling for potential heteroskedasticity and differences in firm characteristics.

**Value**

To the best knowledge of the author, this paper is the first to study the relationship between institutional investors and volatility in Thai IPOs and hence provides a deeper understanding of how investors influence the price formation and volatility of stock prices in emerging markets. Furthermore, besides academics, the results presented in this paper could be useful for market regulators and policymakers in designing future market regulations to efficiently stabilize equity markets.

**Keywords** Institutional investors, information asymmetry, volatility

**Paper Type** Research paper

**JEL Classification**: G14, G23, G32