

**Do Investors Time the Market? The Moderating Role of Sentiment
in the Saudi Stock Market**

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ABSTRACT

This study explores the moderating role of investor's sentiment on the market timing ability of institutional and individual investors in the Saudi Arabia's equity market. Utilizing a panel dataset of monthly sector-level returns and net trading activity from March 2010 to March 2025, this study employs portfolio sorting and fixed-effects panel regressions to determine whether investors' sentiments play a role in their ability to time their investments. The panel regressions uncover a sentiment-dependent differences in the predictive power of net trading. In any specific month, institutional net buying is typically negatively correlated with sector returns in the following month which conforms with their stabilizing trading influence during normal market conditions. Nonetheless, during periods of high sentiment, this association is reversed which implies that purchases by institutional investors in a specific month predicts higher returns in the subsequent one. On the other hand, individual investors' net buying, in a specific month, is significantly negatively correlated with sector returns in the following month, and this negative correlation becomes more evident during periods of strong market optimism. This, in return, suggests that sentiment-driven purchasing in a specific month forecasts lower returns in the following one, indicating poor timing and sentiment-driven overvaluation.

Keywords: Investor Sentiment, Investor Behaviour, Institutional Trading, Individual Trading, Emerging Markets.

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