Applied Financial Economics ›
Volume 22, 2012 - Issue 19

Original Articles

Sentiment changes, stock returns and volatility: evidence from NYSE, AMEX and NASDAQ stocks

Spyros Spyrou

Pages 1631-1646 | Published online: 27 Apr 2012

Cite this article https://doi.org/10.1080/09603107.2012.671921

Full Article | Figures & data | References | Citations | Metrics
Reprints & Permissions | Read this article | Share

Abstract

Using US stock portfolios that are formed on book-to-market equity (B/M), long term reversals, momentum, and size, a long sample period (1965–2007), and the comprehensive sentiment index of Baker and Wurgler (2006), this article shows that contemporaneous returns of extreme portfolios are significantly related to monthly sentiment changes and tend to be higher during periods of negative sentiment. Stock returns, however, seem to Granger-cause sentiment changes and are more important in predicting sentiment changes than vice versa. In addition, conditional return volatility is significantly affected by lagged volatility rather than sentiment changes.

Keywords:

sentiment | book-to-market | momentum | reversal | volatility

JEL Classification::

G12 G14 G15

Notes

[1] Zhang, for instance defines the term investor sentiment as a representation of market participants' beliefs about future cash flows relative to some objective norm (the true fundamental value of the underlying asset; p. 9).

[2] The index (level and changes) is collected from www.stern.nyu.edu/~jwurgler, where it is publically available.

[3] See http://mba.tuck.dartmouth.edu/pages/faculty/ken.french. The site provides more details on the construction of the portfolios. Also see previous empirical studies for further details and discussion, such as Fama and French (1993, 1995, 1996), among others.

[4] Their regression also includes a market return as a control variable, since high volatility stocks may have higher betas.

[5] Testing for a unit root yields an Augmented Dickey–Fuller (ADF) test statistic for the level of sentiment equal to −2.1777, and an ADF test statistic for the first difference of the level of sentiment equal to −8.7783 (the 1% critical value is −3.4456; the 5% critical value is −2.8676).

Debt/Equity Ratio and Expected Common Stock Returns: Empirical Evidence

Source: The Journal of Finance

Corrigendum to “Investor sentiment and the near-term stock market” [J. Empirical Finance 11 (2004) 1–27]

Source: Journal of Empirical Finance

The Cross-Section of Expected Stock Returns

Source: The Journal of Finance

Consumer Confidence and Stock Returns

Source: The Journal of Portfolio Management

Related research

People also read | Recommended articles | Cited by 22