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



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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](#)

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