

Q

Applied Financial Economics > Volume 22, 2012 - <u>Issue 19</u>

756210ViewsCrossRef citations to dateAltmetric

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

G Cite this article Attps://doi.org/10.1080/09603107.2012.671921



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:

JEL Classification::

G12 G14 G15

Notes

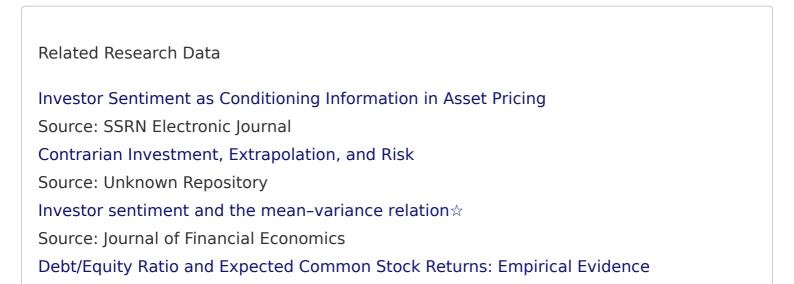
¹Zhang, for instance defines the term investor sentiment as a representation of market participants' beliefs about future cash flows relative to some objective norm (the true fundamental value of the underlying asset; p. 9).

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

³ See <u>http://mba.tuck.dartmouth.edu/pages/faculty/ken.french</u>. 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 (<u>1993</u>, <u>1995</u>, <u>1996</u>), 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).



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 Investor sentiment and the near-term stock market Source: Journal of Empirical Finance Misspecification of capital asset pricing Source: Journal of Financial Economics Market Liquidity as a Sentiment Indicator Source: SSRN Electronic Journal The relationship between return and market value of common stocks Source: Journal of Financial Economics Stock market volatility, excess returns, and the role of investor sentiment Source: Journal of Banking & Finance A Model of Investor Sentiment Source: Unknown Repository Profitability of Momentum Strategies: An Evaluation of Alternative Explanations Source: The Journal of Finance Common risk factors in the returns on stocks and bonds Source: Journal of Financial Economics Giving Content to Investor Sentiment: The Role of Media in the Stock Market Source: The Journal of Finance Consumer Confidence and Asset Prices: Some Empirical Evidence Source: Review of Financial Studies S&P futures returns and contrary sentiment indicators Source: Journal of Futures Markets Can book-to-market, size and momentum be risk factors that predict economic growth? Source: Journal of Financial Economics **Investor Sentiment and Pre-IPO Markets** Source: SSRN Electronic Journal Investor Psychology and Security Market Under- and Overreactions Source: The Journal of Finance Investor Sentiment and the Cross-section of Stock Returns Source: SSRN Electronic Journal

Investor Sentiment, Trading Behavior and Informational Efficiency in Index Futures Markets

Source: Financial Review

A model of investor sentiment1We are grateful to the NSF for financial support, and to Oliver Blanchard, Alon Brav, John Campbell (a referee), John Cochrane, Edward Glaeser, J.B. Heaton, Danny Kahneman, David Laibson, Owen Lamont, Drazen Prelec, Jay Ritter (a referee), Ken Singleton, Dick Thaler, an anonymous referee, and the editor, Bill Schwert, for comments.1 Source: Journal of Financial Economics Do Measures of Investor Sentiment Predict Returns? Source: Journal of Financial and Quantitative Analysis Multifactor Explanations of Asset Pricing Anomalies Source: The Journal of Finance Investor Sentiment in the Stock Market Source: SSRN Electronic Journal Investor sentiment and stock returns: Some international evidence Source: Journal of Empirical Finance The relationship between earnings' yield, market value and return for NYSE common stocks Source: Journal of Financial Economics Size and Book-to-Market Factors in Earnings and Returns Source: The Journal of Finance Retail Investor Sentiment and Return Comovements Source: The Journal of Finance International Momentum Strategies Source: SSRN Electronic Journal Risk-Neutral Skewness: Evidence from Stock Options Source: Journal of Financial and Quantitative Analysis The Relationships between Sentiment, Returns and Volatility Source: SSRN Electronic Journal Does the Stock Market Overreact? Source: The Journal of Finance A Unified Theory of Underreaction, Momentum Trading, and Overreaction in Asset Markets Source: The Journal of Finance Investor Sentiment in Japanese and U.S. Daily Mutual Fund Flows Source: SSRN Electronic Journal

Linking provided by Schole plorer

Related research 1

People also read

Recommended articles

Cited by 21

		~
Intorr	nation	tor
	πατισπ	101

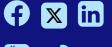
Open access

Authors	Overview
R&D professionals	Open journals
Editors	Open Select
Librarians	Dove Medical Press
Societies	F1000Research
Opportunities	Help and information
Reprints and e-prints	Help and contact
Advertising solutions	Newsroom
Accelerated publication	All journals
Corporate access solutions	Books

Keep up to date

Register to receive personalised research and resources by email







Copyright © 2025 Informa UK Limited Privacy policy Cookies Terms & conditions

Taylor & Francis Group

Accessibility

Registered in England & Wales No. 01072954 5 Howick Place | London | SW1P 1WG