



Journal of Behavioral Finance >

Volume 11, 2010 - Issue 4

1,500 29

Views | CrossRef citations to date | Altmetric

ARTICLES

A More Predictive Index of Market Sentiment

Todd Feldman

Pages 211-223 | Published online: 02 Dec 2010

Cite this article <https://doi.org/10.1080/15427560.2010.526892>

Sample our
Behavioral Sciences
Journals



>> [Sign in here](#) to start your access
to the latest two volumes for 14 days

Full Article

Figures & data

References

Citations

Metrics

Reprints & Permissions

Read this article

Share

Abstract

Recently, finance literature has turned to non-economic factors such as investor sentiment as possible determinants of asset prices. Using mutual fund data, I calculate a new sentiment measure, a perceived loss index. The advantage of the loss index is that it can determine perceived risk for different categories of equities, including market capitalization, style and sector. Results provide evidence that the perceived loss index outperforms all other sentiment and systematic risk measures in predicting future medium run returns, especially for one- and two-year horizons. This evidence pertains not just to broad market returns but also to capitalization-style and sector specific indice returns as well. In addition, I provide evidence that the loss index can be used as a quantitative measure to detect bubbles and financial crises in financial markets.

Keywords:

ACKNOWLEDGMENTS

I am grateful to Dan Friedman for invaluable advice. I am also grateful for the suggestions from seminars at Worcester Polytec, San Francisco State University and the Federal Reserve Bank of Cleveland. I am thankful to University of California Pacific Rim Grant. I retain sole responsibility for remaining idiosyncrasies and errors.

Notes

1. See Fischer and Statman [2000] and Baker and Wurgler [2006].
2. In the regressions below I use PLI calculated with various half lives. The PLI with a half life of one year returned the highest R-square.
3. See Appendix for a more detailed explanation.
4. More specifically, this index uses all funds classified as growth, value, core, small cap, mid cap, large cap, small growth, small value, small core, mid growth, mid value, mid core, large growth, large value and large core.
5. Due to the recent financial crisis I have updated the figures to include the level of the index up until January 1, 2009.
6. The data are taken from Kenneth French's website,
http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html.
7. The MSCI index levels I use include the US Investable Market 2500, Small Cap Value, Small Cap Growth, Large Cap Value, Large Cap Growth, Growth, Value, Small Cap 1750, Large Cap 300, and MSCI REIT Index.
8. For graphical analysis I use the S & P 500 data because it goes back farther in time, where as, the MSCI Indices start in 1992.

9. Using the benchmark recommended by Newey and West [1987] that the number of lags chosen should equal $4(n/100)^{2/9}$ and suggested by others that $n^{1/4}$ I obtain a lag equal to six.

Related research

People also read

Recommended articles

Cited by
29

Information for

Authors

R&D professionals

Editors

Librarians

Societies

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

Help and information

Help and contact

Newsroom

All journals

Books

Keep up to date

Register to receive personalised research and resources
by email

 Sign me up

  

  

Copyright © 2026 Informa UK Limited Privacy policy Cookies Terms & conditions

Accessibility



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