Journal of Behavioral Finance ›

Volume 21, 2020 - Issue 1

1,379 Views | 8 CrossRef citations to date | 0 Altmetric

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Investor Sentiment and Mutual Fund Alpha

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Pages 57-65 | Published online: 10 May 2019

Cite this article https://doi.org/10.1080/15427560.2019.1594814 Check for updates

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Abstract

The author examines the relationship between investor sentiment and mutual fund alpha. The author finds that investor sentiment plays a significant role in the value and occurring probability of alpha and the probability of earning alpha is high when investor sentiment gets higher. Also, the author finds that a benchmark model adjusted by investor sentiment can significantly reduce the occurring probability of fund alpha. Overall investor sentiment is an essential factor missing in extant benchmark models. A robustness check confirms this finding.

Keywords:

Fund alpha | Occurring probability | Sentiment indexes | Sentiment-adjusted model

Notes

1 .Alpha is also known as risk-adjusted return, or abnormal return. .

2 .According to Forbes, AAII had about 150,000 members in 2012.

3 .Outperforming (underperforming) probability refers to the probability of earning positive (negative) alpha.

4 .Dummy variable takes value of 1, 2, 3, and 4 for sentiment Quartiles I, II, III, and IV, respectively.

5 .The monthly data of the BW sentiment index from October 2015 to December 2016 are not available.

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