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Volume 45, 2009 - Issue 4

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Investor Sentiment and Stock Returns: Evidence from Turkey

Serpil Canbaş & Serkan Yılmaz Kandır

Pages 36-52 | Published online: 07 Dec 2014

Cite this article https://doi.org/10.2753/REE1540-496X450403

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Abstract

This paper investigates the relation between investor sentiment and stock returns on the Istanbul Stock Exchange, employing vector autoregressive (VAR) analysis and Granger causality tests. The sample period extends from July 1997 to June 2005. In the VAR models, stock portfolio returns and investor sentiment proxies are used as endogenous variables. Two dummy variables accounting for natural and economic crises are used as exogenous variables. The analysis results suggest that, excepting shares of equity issues in aggregate issues, stock portfolio returns seem to affect all investor sentiment proxies, namely closed-end fund discount, mutual fund flows, odd-lot sales-to-purchases ratio, and repo holdings of mutual funds. Investor sentiment does not appear to forecast future stock returns; only the turnover ratio of the stock market seems to have forecasting potential.

Keywords:

behavioral finance | investor psychology and ISE | investor sentiment | noise | stock returns

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