
The Impact of Investor Sentiment on Speculative Stocks' Returns

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This study measures stocks' speculative level according to the volatility of stock returns and specific financial ratios, and then designs portfolios for both measures. Not only does this study adopt several sentiment indexes representing three different investor groups, but it also constructs a complex sentiment index using loadings of first principal component analysis for all the sentiment indexes in this study. The goal of this study is to discuss the impact of investor sentiment on current and future stock returns. Finally, we used the "Predictive Regression for Long-Short Portfolios" model (Baker and Wurgler, 2006) to examine how future returns are relatively low(high) when investor sentiments are high(low) for stocks with speculative characteristics. The empirical results of this study show the following: (1) When using the complex sentiment index, the deviations in stock prices caused by investor sentiment are corrected in the next month. (2) Overall, the returns on speculative stocks are most affected by investor sentiments. (3) If the Predictive Regression Model is controlled with the variables of market risk premium (RMRF) and Fama-French factors (SMB and HML), there is no strong evidence that future returns are relatively low(high) when investor sentiments are high(low) for stocks with speculative characteristics.

Key Words: *Investor Sentiment, Speculative Stocks, Characteristics of Stocks, Principal Component Analysis.*

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