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## FACULTY OF BUSINESS ADMINSTRATION

INVESTOR SENTIMENT AND

CHINA'S A-SHARE STOCK MARKET RETURNS

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**Abstract**

This paper generates the investor sentiment index for China A-share stock market, and then uses it to predict future market returns and explains the market abnormal returns caused by firm characteristics and market anomalies. Same with previous works in the U.S. stock market, investor sentiment has a positive correlation with the contemporary aggregate market returns and is also a contrary predictor of future aggregate market returns in China A-share stock market as it drives the current price of stocks extremely far away from the fundamental value. The empirical analyses support the hypothesis that investor sentiment has strong influence with future abnormal returns caused by firm characteristics and market anomalies. Following high investor sentiment, the profits of long-short strategy will be more and the short leg portfolio will mostly gain more at the same time.

**TABLE OF CONTENTS**

1. Introduction ..... 7
1.1 Thesis background ..... 8
1.2 Thesis objective ..... 9
1.3 Research hypothesis and questions ..... 11
2. Literature review ..... 13
2.1 Investor sentiment ..... 13
2.1.1 The Efficient Market Hypothesis (EMH) ..... 13
2.1.2 Behavioral finance ..... 15
2.1.3 Investor sentiment ..... 17
2.1.4 Investor sentiment measurement ..... 19
2.1.5 Investor sentiment indices ..... 21
2.1.6 Why the close-end fund discount ($CFED_t$) proxy isn't included? ..... 24
2.2 Investor sentiment and market tendency ..... 25
2.2.1 Investor sentiment and market return ..... 25
2.2.2 Hypothesis 1 ..... 27
2.3 Firm characters and market anomalies ..... 28
2.3.1 Firm characters ..... 28
2.3.2 Market anomalies ..... 29
2.3.3 Hypothesis 2 &3 ..... 30
2.4 The China stock market ..... 31
3. Data and research methodology ..... 32
3.1 Data resource ..... 32
3.2 Investor sentiment indices ..... 32
3.2.1 Premium for Volatility ..... 33
3.2.2 Number of IPOs ..... 34
3.2.3 Initial Returns of IPOs ..... 35
3.2.4 Market Turnover ..... 35
3.2.5 Investor Sentiment Index ..... 36
3.3 Firm characteristics ..... 37
3.3.1 Firm size (Size) ..... 38
3.3.2 Total risk (Sigma) ..... 39

3.3.3 Book-to-market ratio (BM) ..... 39
3.3.4 Sales growth (GS) ..... 39
3.4 Market anomalies ..... 40
3.4.1 Financial distress (Ohlson O-score) ..... 40
3.4.2 Stock issue growth (Issue) ..... 41
3.4.3 Total accruals (Accruals) ..... 42
3.4.4 Net operating asset (Opa) ..... 42
3.4.5 Profit premium (Profit) ..... 42
3.4.6 Growth of asset (GA) ..... 43
3.4.7 Return on asset (ROA) ..... 43
3.4.8 Return on equity (ROE)) ..... 43
3.4.9 Investment to asset (ITA) ..... 44
3.5 Long-short strategies ..... 44
3.6 Theoretical and empirical approaches ..... 45
3.6.1 Investor sentiment with market tendency ..... 45
3.6.2 Investor sentiment with long-short strategy ..... 46
4. Empirical Results ..... 48
4.1 Investor sentiment with market tendency ..... 48
4.1.1 Investor sentiment with current market tendency ..... 48
4.1.2 Prediction on market returns with investor sentiment ..... 53
4.2 Firm characteristics ..... 55
4.2.1 Investor sentiment with portfolio returns ..... 55
4.2.2 Predictive regression of investor sentiment and portfolio returns ..... 57
4.3 Market anomalies. ..... 60
4.3.1 Investor sentiment with portfolio returns ..... 60
4.3.2 Predictive regression of investor sentiment and portfolio returns ..... 61
5. Conclusions ..... 64
Reference ..... 66

## LIST OF FIGURES AND TABLES

Figure 1: Investor Sentiment Index with Corresponding Stock Index ..... 78
Figure 2: Investor Sentiment Index with Corresponding Returns of Stock Index..... 79
Figure 3: Investor Sentiment Index with Future Stock Index..... 80
Figure 4: Investor Sentiment Index with Future Returns of Stock Index ..... 81
Table 1: Description of Raw Data ..... 82
Table 2: Statistics of Raw Data..... 84
Table 3: Sentiment Indices and Investor Sentiment Index, 1997-2009 ..... 86
Table 4: Correlations of Investor Sentiment Index and Current Market-Level Returns ..... 87
Table 5: Time-series Regressions for Homochromous Market-Level Returns ..... 88
Table 6: Correlations of Investor Sentiment Index and Future Market-Level Returns 89
Table 7: Time-series Regressions for Future Market-Level Returns..... 90
Table 8: Correlations of Portfolio Returns Formed by Firm Characteristics..... 91
Table 9: Long-Short Strategies of Firm Characteristics with High or Low Investor Sentiment ..... 92
Table 10: Investor Sentiment and Firm Characteristics Portfolios..... 93
Table 11: Investor Sentiment and Firm Characteristics Portfolios (Net of MKTt) ..... 94
Table 12: Correlations of Portfolio Returns Formed by Market Anomalies ..... 95
Table 13: Long-Short Strategies of Market Anomalies with High or Low Investor Sentiment ..... 97
Table 14: Investor Sentiment and Market Anomalies Portfolios..... 99
Table 15: Investor Sentiment and Market Anomalies Portfolios (Net of MKTt)..... 100