A PARAMETRIC SURVIVAL ANALYSIS OF FUNDAMENTAL FACTORS AND SENTIMENT INDEX TOWARDS FUTURE STOCK RETURNS: A NEW CHAPTER OF GLOBAL FINANCIAL CRISIS

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TABLE OF CONTENT

LIST			PAGE
TITLE PAGE			i
DECLARATION OF ORIGINAL WORK			ii
LETTER OF SUBMISSION			iii
USE OF THESIS			iv
TABLE OF CONTENT			v
LIST OF TABLES			viii
LIST OF FIGURES			x
LIST OF ABBREVIATIONS			xi
ABSTRACT			xii
ACKNOWLEDGEMENT			xiii
CHAPTER			
1	**INTRODUCTION**		
	1.0	Background to the study	1
	1.1	Problem Statement	2
	1.2	Objective of study	5
	1.3	Scope of study	6
	1.4	Limitations of study	6
		1.4.1 Availability and biasness of information and data	
		1.4.2 Longitudinal effect and time constrain	
		1.4.3 Lack of prior research studies on the topic	
	1.5	Significant of Study	7
		1.5.1 Body of Knowledge	
		1.5.2 The investor (individually or aggregate firm)	
		1.5.3 The government / Regulation body	

1.5.4 Future Researcher

2 LITERATURE REVIEW

2.0 Introduction 10

2.1 The Relation between Sentiment and Future Stock Return 10

2.2 Investor Sentiment Measures 12

2.3 The Relation between Fundamental Factors and Future Stock Returns 14

2.4 Theoretical Framework 15

3 DATA AND METHODOLOGY

3.0 Introduction 16

3.1 Data Collection Method 16

3.2 General Hypotheses 17

3.3 Descriptive Statistics 18

3.4 Unit Root Test 18

3.4.1 Augmented Dickey Fuller Test

3.4.2 Philips-Perron Test

3.5 Autocorrelation Test 19

3.5.1 Breusch-Godfrey Lagrange Multiplier Test

3.6 Multicollinearity Test 20

3.6.1 Variance Inflation Factor Test

3.7 Multiple Linear Regression 20

3.8 Parametric Survival Analysis Model 21

3.9 Research Methodology Flow Chart 23

4 FINDINGS AND ANALYSIS

4.0 Introduction 24

4.1 Results of Descriptive Statistics 24

ABSTRACT

The traditional financial theory was purposely invented to analyse the investment performance with the belief that the rational act of an investor could lead to decision making. Most of the theories developed came up with an assumption that the market is perfectly efficient. However, the evolution of the theory led many researchers to find evidences that the decision making process in investment activities could be influenced by the irrational behaviour and psychology of an investor. This is called as Behavioural Finance Theory. In this study, linear regression model was used to investigate the effect of sentiment index and the fundamental factors towards future stock returns. Then a Parametric Survival Model by using Log-logistic and Weibull Hazard Model was used to observe the existence and the size of rational bubbles in the market. A time series analysis was performed by using monthly data of NYSE and NASDAQ from five sectors during Global Financial Crisis period (2007-2009). It was found that only 27% out of 30 companies are significant. The sentiment index showed a weak negative relationship towards future stock return while the fundamental factors showed a strong negative relationship towards future stock returns and remained the major contributing factors. Lastly, small in size of rational bubbles were found during the Global Financial Crisis 2008.

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