

Final Report for the AFAANZ 2020-2021 Research Grant

(1) Applicants:

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(2) Project Title: Australian Investor Sentiment Index and Institutional Demand Shocks

(3) Updated Project Summary

Understanding the cross-sectional differences in stock returns remains a challenge. Baker and Wurgler (2006) construct an investor sentiment index which capture systematic patterns of mispricing to explain equity returns in the US. DeVault et al. (2019) find that existing sentiment metrics capture institutional demand shocks to a greater extent. In this study, we construct a publicly available Australian Investor Sentiment index to price Australian stocks. We initially explore whether institutional or individual trading is a larger contributor to market-wide sentiment. Further, we look into whether sentiment index drives the intuitional investment of Superannuation Funds in Australia.

(4) Funds granted: \$7,500 (AUD)

(5) Detailed Report on Expenditure of Funds against Budget Items: We proposed to obtain \$8,005.5 and was granted \$7,500. We proposed to hire research assistant for 150 hours if we were granted the full amount. With \$7,500, we hired research assistants for 140.5 hours to obtain and clean return data, financial accounting data of the Australian equity market. Research assistance has also been utilised to construct the Australian investor sentiment index and explore how it affects stock returns and institutional demand. A detailed breakdown is as follows

- Data Collection and Consolidation - 40 hours=\$2,134.80
- Sentiment Index - 20 hours=\$1,067.40
- Sentiment Index and Returns- 25 hours = \$1,334.25
- Sentiment Index and Institutional Demand Analysis= 25 hours = \$1,334.25
- Sentiment Index and Superannuation Investment =25 hours = \$1,334.25
- Formatting results and Tables - 5.5 hours= \$295.35
- Total 140.5 hours - \$7,498.49

(6) Outcomes: working paper of 'Australian Investor Sentiment Index and Institutional Demand Shocks'. This paper is among the first to construct the Australian investor sentiment index. It also documents a positive relationship between investor sentiment and institutional demand shocks, which is in line with the extant literature in other international markets.

(7) Future intentions

- a. Conference submission: submit the working paper to AFAANZ annual conference 2022
- b. Journal submissions: submit the working paper to Accounting and Finance in 2023
- c. Grant applications: At this stage, we do not intend to apply for another grant
- d. Projects: N/A

(8) Summary of Outcomes and Benefits: We appreciate the grant, which enables us to hire a research assistant to process data for us. We are now working on both the draft and analysing data of the project.