

SUMMARY

RUM PUSPITA WIDHIARTI. Analysis of Investor Sentiment Impact to Excess Return and Its Volatility. Supervised by LUKYTAWATI ANGGRAENI and SYAMSUL HIDAYAT PASARIBU.

Irrational Investor behavior was incompatible with classical financial theory such as Black Thursday and Black Monday stimulated behavioral finance development. IHSG is an index used as an indicator of stock price movements on Indonesia Stock Exchange and reference of capital market activities. Stock securities had high risk because they do not have maturity such as bonds so volatility is one of the important things in stock investment.

Investor sentiment is one of behavioral finance assumptions which may affect volatility if sentiment as noise traders affecting price and causing systematic risk so it is necessary to analyze impact of investor sentiment on IHSG and sectoral volatility. This study used monthly time series January 2001 to December 2015 with GJR-GARCH method and Business Tendency Index as investor sentiment proxy.

The results showed that there was significant effect of investor sentiment on excess return and excess return volatility. As investors were optimistic, uncertainty in the stock market will increase, also IHSG and sectoral excess return volatility will increase as the average investor is pessimistic. There was noticeable leverage effect in the presence of negative shocks resulting in higher conditional variance changes compared to positive shocks at same magnitude.

Keywords: behavioral finance, GJR-GARCH, investor sentiment, volatility



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