Chapter 7

The Impact of Economic Sentiment, Consumer, Producer and Investor’s Confidence Indices on Stock Returns of the Listed Companies in FTSE–20 in Greece

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ABSTRACT

This chapter examines the relationship between stock returns of companies listed in the FTSE-20 on the Athens Exchange and behavioral indicators. The research is based on the behavioral APT model, which examines stock returns’ risk factors through the involvement of macroeconomic variables and behavioral indicators. The data is the closing price of 17 shares listed in the FTSE-20 index, a number of macroeconomic variables, and a series of behavioral indicators for the period of January 2001-December 2014. Regressions were conducted with dependent
variable stock returns of a portfolio invested equally in these 17 stocks. In addition, the research tests the existence of long-run and short-run equilibrium and causality. The change in the industrial production index along with the risk premium have a positive and significant impact on the portfolio returns. Johansen’s test showed that there is a long-run equilibrium between stock returns, macroeconomic variables, and behavioral indicators. The VECM and VAR models showed that there is not long and short-run causality, not even Granger causality. No similar research has been conducted in Greece, thus it fills a literature gap.

INTRODUCTION

Overview

This study examines the effect of behavioral indicators (Consumer Confidence Index, Investor Confidence Index, Producer Confidence Index and Economic Sentiment Indicator) in stock returns of companies listed in the FTSE-20 index in Greece, in the context of the Arbitrage Pricing Theory (APT).

The economic and business environment is changing radically, due to new socio-political and economical conditions, globalisation, and rapid advances in technology and sciences. (Kennet et al., 2013). The most common approach of the association between macroeconomic variables and stock returns is the Arbitrage Pricing Theory (APT) developed by Ross (1976). Based on this theory, multiple risk factors can explain stock returns. The behavioral approach of APT is a recent concept, as only a few studies have attempted to incorporate those factors to the context of APT. One of these studies is that of Hasan (2010), who also found evidence for the significance of the Investor Confidence Index, together with macroeconomic fundamentals to explain the observed stock returns. Consequently, the effect of behavioral indicators cannot be taken into consideration while ignoring the effect of fundamental economic data within the APT.

Research Aim and Objectives

The research aim of this study can be summarized in the following sentence: “Examination of the behavioral approach of APT in Greece: The case of companies listed in the FTSE-20.” To fulfill the research aim of the study, a series of research objectives have been developed that are presented below:
Features of Financial Policy Development by Russian Companies in Today's Conditions
[www.igi-global.com/chapter/features-of-financial-policy-development-by-russian-companies-in-todays-conditions/217669?camid=4v1a](www.igi-global.com/chapter/features-of-financial-policy-development-by-russian-companies-in-todays-conditions/217669?camid=4v1a)

Applying Multiple Linear Regression and Neural Network to Predict Business Performance Using the Reliability of Accounting Information System