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Management Short-horizon,Investor Sentiment and Corporate Investment Distortion in China Stock Market

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This paper investigates the direct effects of investor valuations on China corporation investments under management short-horizon resulted from stockholder short-horizon.By comparing usual-used market valuation index,marketto-book ratio,with new misprice index,non-equilibrium price,this paper analyzes the effects of investor sentiment on corporate long-turn investment,short-turn investment and total investment under different management short-horizon levels.And it also surveys the mix effects of market misprice and management short-horizon on corporate investment distortion.It concludes that the higher the market misprice is,the more corporation invests,and if the level of management short-horizon is higher,the investment is more sensitive to market valuation.Furthermore,long-turn investments are more sensitive to market valuations expressed by non-equilibrium price,and short-turn investments are more sensitive to market valuations expressed by market-to-book ratio.The latter sensitivity shows that China stock market is not efficient,and market-to-book ratio can reflect investor irrational valuation psychology.

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Liu proves that investor sentiment/mis-pricing affects the corporate stock price and in return, affects the corporate operation, especially the corporate investment decisions [1]. Farhi and Panageas indicate that mispricing distorts the normal investment decision-making of the firms, leading to the investment efficiency [2]. Polk and Sapienza suggest that investor sentiment, or mispricing affects the corporate investment decision making, and the. It has taken only about 30 years since stock market in China started to develop, and for the Traditional finance theory suggests that stock price reflects the marginal output of capital—the investment op-portunities. Investor sentiment predicts the mispricing factors, especially their short legs, consistent with a mispricing interpretation and the asymmetry in ease of buying versus shorting. Replacing book-to-market with a single composite mispricing factor produces a better-performing three-factor model. Robert F. Stambaugh (Working), Noisy Active Management. Abstract: Lower skill of the active management industry can imply greater fee revenue, value added, and investor performance. Such outcomes arise in a competitive equilibrium in which portfolio choices of active managers partially echo those of noise

Investor Sentiment Aligned: A Powerful Predictor of Stock Returns.Â Our nding of strong market predictability of investor sentiment complements in a unique way to early studies by Baker and Wurgler (2006, 2007) and many others who nd investor sentiment plays an important role in explaining the cross-section of stock returns.Â However, they are complementary and their performance difference diminishes as the horizon increases. The rest of the paper is organized as follows. Section 1 discusses the construction of the aligned investor sentiment index. â€œInvestors with short-term horizons pay close attention not only to stock prices in the near term but also the companiesâ€™ short-term performance as reported in their financial statements. If short-term projects yield lower returns on investment than long-term projects as it is often the case, a shareholder base dominated by short-term investors can become a real challenge for companies,â€ says Professor Larcker.Â Top management and corporate directors are seen as having the longest investment horizon among major shareholder groups, with 93% and 92% of companies describing their investment horizon as long-term or somewhat long-term, respectively. Among other major shareholder groups, pension funds are seen as having the longest investment horizon. High sentiment also is associated high corporate issuance, interpretable as companies increasing the supply of shares in response to investor demand. Andrea Frazzini The University of Chicago Graduate School of Business 5807 South Woodlawn Avenue Chicago, IL 60637 andrea.frazzini@chicagogsb.edu Owen A. Lamont Yale School of Management 135 Prospect Street PO Box 208200 New Haven, CT 06520-8200 and NBER owen.lamont@yale.edu. Individual retail investors actively reallocate their money across different mutual funds.Â the basic measure of sentiment, describes the data, and examines the relation of corporate issuance and flows. Section III looks at the relation between flows and stock returns.