THE IMPACT OF INVESTOR PSYCHOLOGY ON STOCK MARKETS: EVIDENCE FROM FRANCE

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Abstract

This paper provides the first evidence for empirical sensitivity of trading volume to human psychological factors. We review therefore extensive evidence about how human psychology affects investor behavior and trading volume. Using the data for individual stocks listed on the CAC40 Stock Market over the period 2005-2011, results based on a fuzzy logic approach indicate a high sensitivity of trading volume to investor sentiments and beliefs. The sensitivity increases abnormally for the pessimism input variable. Taken together all results indicate that economy is highly driven by human psychologies, a result which is in conformity with the prediction of Keynes (1936) and Akerlof and Shiller (2009).

Keywords: rationality; optimism; pessimism; overconfidence; trading volume; fuzzy logic.

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