



The Short of It: Investor Sentiment and Anomalies

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This study explores the role of investor sentiment in a broad set of anomalies in cross-sectional stock returns. We consider a setting where the presence of market-wide sentiment is combined with the argument that overpricing should be more prevalent than underpricing, due to short-sale impediments. Long-short strategies that exploit the anomalies typically exhibit profits consistent with this setting. First, each anomaly is stronger — its long/short strategy is more profitable — following high levels of sentiment. Second, the short leg of each strategy is more profitable following high sentiment. Finally, sentiment exhibits no relation to returns on the long legs of the strategies.

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