Measuring Determinants of Investor Confidence through Time: A Regression Analysis

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This project explores variables that may affect investor confidence in the stock market. Understanding what drives investor confidence in markets can be useful for both institutions and individuals when considering how to react to and cope with the increasing financial volatility of modern financial markets. The hypothesis that economic variables are determinants of investor confidence is tested using a multivariate regression model spanning 1989-present. The measure of investor confidence employed is based on a survey conducted by Yale professor Dr. Robert Shiller. This paper demonstrates that at a basic level, measures such as company earnings and P/E ratio are more significant predictors of markets in the long term, while measures of consumer sentiment and number of initial public offerings are more significant in the short term. This research suggests therefore that more intangible measures such as consumer sentiment are useful predictors in the short run, but exhibit a declining effect as the investing horizon is lengthened.

Information about the Author:
Paul Yox is a finance and economics major and member of Christ College. Paul is especially interested in examining how financial markets operate and affect our world. He is the Indiana State President of Phi Beta Lambda, a national business organization, local chapter president of the Financial Management Association, and treasurer of his fraternity Phi Sigma Kappa. He is pursuing a career in investment banking.

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