

INVESTOR SENTIMENT EMBEDDED ASSET PRICING MODEL: A CONCEPTUAL PAPER

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Abstract

Purpose: This concept paper examines integrating investor sentiment into asset pricing models, focusing on the Colombo Stock Exchange. It aims to bridge the gap between traditional models and real-world dynamics, enhancing portfolio strategies.

Design/Methodology/Approach: Employing a quantitative approach aligned with the positivist research paradigm, utilizing secondary data from 2014 to 2023, and employing deductive reasoning.

Findings: The study may highlight the limitation of classical asset pricing models in explaining portfolio returns, especially in volatile markets like Sri Lanka, and might suggest the need for incorporating investor sentiment into models.

Research limitations: Focus solely on non-financial companies listed on the Colombo Stock Exchange.

Implications: The research will be an advancing study in frontier markets, aid market participants, and guide future research in asset pricing and portfolio management.

Keywords: Investor sentiment, Asset pricing, Colombo Stock Exchange (CSE), Portfolio construction, Frontier markets