Technology Stocks and Overconfidence Behaviour

Esra Alp Coskun
esraalpcoskun@gmail.com

Abstract
Psychological literature suggests that investors are more likely to be overconfident when the feedback on the information is not clear and rapid. Hence, where there is more information to evaluate about a stock and the feedback is ambiguous, investors more strongly misprice these stocks and they are known as hard to value growth options such as those with high Research and Development (R&D) expenditures or intangible assets. Moreover, literature also relevals that momentum effect is more strong for stocks that are difficult to value. In this study, top ten technology stocks on Nasdaq100 index based on their market caps are selected since they have high R&D expenditures and they are difficult to value by the investors with average information in order to test the presence of overconfidence behvaiour. The selected stocks are Apple, Microsoft, Alphabet Inc. Class C Capital Stock and Class A Common Stock (Google), Amazon, Facebook, Tesla, NVIDIA, PayPal and ASML Holding. The data set used to conduct this study includes the period 08.06.2016 – 07.06.2021 and was collected from the website of Nasdaq which is publicly available. For the analysis of overconfidence, Granger causality test was applied between the series of return and trading volume. The results of the analysis indicate that return does not Granger cause trading volume. Therefore, the findings do not support the presence of overconfidence behaviour as it is suggested by the literature.

Keywords: Behavioural finance, overconfidence, Nasdaq100 index, technology, causality

Jel Classification: G41, G15, C45