The Impact of Investor Sentiment on Corporate Investment

Zhengru Li*
School of Business, East China University of Political Science and Law, Shanghai, China
*Corresponding author email: zoeli0922@163.com

Abstract: With the development of the capital market and the real economy, enterprise investment is getting more and more attention; enterprise investment and the survival of the whole enterprise have a close link, with more and more phenomena presented in the market, the traditional finance theory, namely the "rational man" and "market effectiveness" has met the challenge of "rational man hypothesis" and "market effectiveness hypothesis." the "Rational Man Hypothesis" refers to the fact that investors in the market will make a rational judgment on their investment decisions to maximize their benefits under certain risk conditions or to achieve practical risk avoidance. The "rational man hypothesis" refers to the fact that investors in the market will make a rational judgment on their investment decisions, maximize their benefits under certain risk conditions, or achieve effective risk avoidance. The "behavioral finance" discipline, which is the most crucial factor for investors. Thus, under these conditions, many scholars have broadened their assumptions, and "behavioral finance" has emerged. "Behavioral finance" is a cross-cutting discipline covering the theories of economics, psychology, and other disciplines, which entirely takes into account the impact of investors' emotional factors, thinking patterns, social orientation, and other aspects of investment, and is developed based on traditional finance. However, it does not negate it simultaneously and supplements it, arguing that investors in the capital market are "non-completely rational and non-completely irrational." At the same time, it can also provide reasonable explanations for the various financial anomalies in the actual market.

Keywords: Behavioral finance; Investor sentiment; Listed firms; Investment size; Investor efficiency.

1. Background and Significance of The Study

1.1. Background to the study

There are two primary hypotheses in traditional finance theory, namely the "Rational Man Hypothesis" and the "Market Effectiveness Hypothesis." the "Rational Man Hypothesis" refers to the fact that investors in the market will make a rational judgment on their investment decisions to maximize their benefits under certain risk conditions or to achieve practical risk avoidance. The "理性人假设" refers to the fact that investors in the market will make a rational judgment on their investment decisions, maximize their benefits under certain risk conditions, or achieve effective risk avoidance. The "行为金融学" discipline, which is the most crucial factor for investors. Thus, under these conditions, many scholars have broadened their assumptions, and "behavioral finance" has emerged. "Behavioral finance" is a cross-cutting discipline covering the theories of economics, psychology, and other disciplines, which entirely takes into account the impact of investors' emotional factors, thinking patterns, social orientation, and other aspects of investment, and is developed based on traditional finance. However, it does not negate it simultaneously and supplements it, arguing that investors in the capital market are "non-completely rational and non-completely irrational." At the same time, it can also provide reasonable explanations for the various financial anomalies in the actual market.

1.2. Significance of the study

China's capital market is still in the primary stage; the market mechanism lacks integrity and maturity. Compared with the mature capital market, there are underinvestment and overinvestment problems. The market accounts for the majority of individual investors, individual investors compared to institutional investors, lack of appropriate professional knowledge and practical experience, investment decision-making by emotional and psychological impact, irrationality is higher, prone to speculation and overconfidence or overcautious phenomenon. Investor's emotional investment will cause bias in stock price expectations, negatively affecting the real economy. Confidence or excessive caution phenomenon and investors' emotional investment will cause the deviation of stock price
expectations, affecting the enterprise investment decision, which harms the real economy. By studying the impact of investor sentiment on listed enterprises' investment, in terms of theory, behavioral finance can make practical explanations of irrational investment behavior in the market and integrate investor sentiment into the study so that investor sentiment as a theoretical factor for more comprehensive analysis of investment; in terms of reality, in the case of China's capital market has not yet matured, the study of irrational factors of more practical significance, and be able to find and reduce the problem of excessive or insufficient investment of enterprises, and guide enterprises to make reasonable and correct investment decisions.

2. Literature Review

2.1. Investor Sentiment

2.1.1. Definition of investor sentiment

The definition of investor sentiment has been broadly divided into two aspects: in finance, it is defined as the mispricing of stocks or investment bias, i.e., the deviation of the investor's estimate of the price of a stock from the stock's intrinsic value (overestimation or underestimation); and in psychology, it is regarded as a kind of psychological cognition. In this paper, investor sentiment can also be considered a measure of "irrationality," but "sentiment" is challenging to measure due to its subjective solid color, and many scholars have conducted in-depth studies on investor sentiment.

Early in the 20th century, Keynes first proposed that changes in investor sentiment would impact corporate investment decisions. Investor sentiment in irrational situations, investors due to their personality traits, risk appetite, and other aspects of the differentiation of the enterprise's future cash flow expectations, have a particular deviation, and then because of the risk of arbitrage behavior so that investors are not necessarily arbitrage, only when investors believe that the arbitrage benefit is greater than the risk of choosing arbitrage. 1996 Stein that it is the investor's estimate of the stock price and the intrinsic stock deviation from the stock's intrinsic value, with optimistic investor sentiment overestimating the stock price and pessimistic investor sentiment underestimating the stock price. 1997 Shleifer suggested that from a psychological perspective, investor sentiment is a situation in which investors make errors in value judgment and that each type of error is the same and related to the other. 2006 Baker and Wurgler argued that investors' speculative tendencies due to their moods will lead to the emergence of speculative investments, which depends on the information processing ability of investors and the interactions between investors.

2.1.2. Mechanisms of investor sentiment

The mechanism of investor sentiment is closely related to behavioral finance, and merging psychology and finance is expected in fundamental markets.

Overconfidence

Overconfidence, as the name suggests, is the phenomenon of investors placing too much trust in their judgment and thus making incorrect investment decisions, which is often reflected in the market by overestimating returns and underestimating risks and is defined in financial theory as investor overconfidence Cognitive bias is defined as an investor's overestimation of the quality of the information he or she has at his or her disposal. Overconfidence is also reflected in the noise trading model, where noise trading refers to the use of uncertain information by investors to conduct investment transactions, which account for a large proportion of irrationality, usually causing prices to deviate, which brings about mispricing in the market.

Psychological account

Psychological accounts, including psychological and economic concepts, are created when subjects involved in market transactions weigh the costs and benefits of trading through historical trading experience and results. Creating a psychological account can lead to price perception bias, whereby an investor will be bullish on short-term gains and bearish on losses while trading financial products in the financial markets.

Herd effect

The herd effect, or herd mentality, refers in financial concepts to the lack of independent thinking on the part of investors who blindly follow popular investment trends and follow the herd in the face of a high degree of information asymmetry and high information costs in the capital market. This mechanism is very prone to the problems of capital market manipulation and greater market volatility.

2.2. The impact of investor sentiment on corporate investment behavior

The impact of investor sentiment on the investment behavior of listed firms is mainly divided into the impact on the scale of corporate investment and investment efficiency.

The impact on the enterprise investment scale can be traced back to 1996. Stein, through the above research, further proposed by investor sentiment, investor stock valuation deviation will impact enterprise financing, resulting in high or low financing costs, affecting the enterprise's investment scale. Chirinko and Schaller in 2001 through empirical analyses to conclude that investor sentiment and Chirinko and Schaller concluded in 2001 through empirical analysis that investor sentiment is positively correlated with the investment scale of enterprises, and this conclusion was further confirmed in 2006 under the study of Chinese scholars Liu Rui and Chen Qiu: investor sentiment is significantly positively correlated with the investment scale of enterprises, and the study found that investor sentiment has a more significant impact on the long-term investment of enterprises.

Research on the impact of corporate investment efficiency is relatively scarce. Polk and Sapienza 2009 concluded that investor sentiment on corporate investment, in the case of the impact of investor sentiment on corporate investment, is prone to overinvestment and underinvestment problems. These problems may lead to a decline in the efficiency of allocating social resources. The investment decisions of enterprise managers will be affected by investor sentiment, such as investors overestimate the enterprise share price and tend to sell shares. Then, managers are likely to issue new shares. Suppose the reverse loses the favor of investors. In that case, all managers have to comply with investor sentiment, which subsequently will impact the entire enterprise investment, so the enterprise produces an inefficient investment phenomenon. 2010 China's Hua Guiru and, Liu Zhiyuan, Xu Qian scholars suggested that the enterprise's investment will be affected by investor sentiment, which may lead to a decline in the efficiency of social resource allocation. In 2010, Hua Guiru, Liu Zhiyuan, and Xu Qian proposed that investor sentiment positively affects corporate investment in the short term. However, in the long term, it will weaken the value of the enterprise.
3. Research Content and Methodology

3.1. Content of the study

This paper combines theoretical and empirical research methods, using behavioral finance to analyze the impact of investor sentiment on the investment behavior of listed companies. The article is divided explicitly into the first part is the introduction, which explains the purpose and significance of the study; the second part is the literature review, which introduces the research and analysis of this proposition by domestic and foreign scholars from the ancient times to the present day and the conclusions obtained so that we can better provide a solid foundation for the in-depth analysis; the third part is to analyze the influence of investor sentiment on the investment behavior of listed companies. The third part is to analyze the impact of investor sentiment on the investment behavior of listed enterprises, put forward hypotheses based on the analysis of the theoretical model, and then through the analysis of China's A-share market enterprise data for empirical research; the fourth part is through the empirical analysis of China's A-share market enterprise data for empirical research; the fourth part is through the empirical results obtained from the above research, and then through the results can be derived from the constructive comments, and the research of this paper has what defects, the future of the proposition of research space, etc. research space for this proposition, etc.

3.2. Research methodology

This paper uses a combination of theory and empirical evidence to derive hypotheses through theoretical analyses and then empirical analyses to prove whether the hypotheses are valid or not.

3.2.1. Construction of the theoretical model

This paper stands in the perspective of behavioral finance and refers to the analytical approach of Baker et al. (2006), i.e., the model is built on the premise of the irrationality of investors and rationality of corporate managers, who based on the corporate perspective need to consider the maximization of corporate value, the maximization of the current share price, and the welfare of the existing investors to carry out the investment behaviors.

There are generally two methods for enterprises to raise funds in the market, including equity financing and debt financing, and let the primary value function of the enterprise be \( V = f(K, E) \).

The function \( f() \) is the desired cash flow of the firm in the first accounting period and is an increasing function, \( K \) is the new investment of the beginning firm, and \( E \) is the amount of equity financing of the beginning firm.

Managers attempting to maximize valuation also appeal to investor sentiment. They will invest in specific projects or collapse the firm's fundamental value, resulting in the current share price deviating from its value. Please assume that the current stock price of a firm deviates from its fundamental value (intrinsic value) by \( \delta(K, E) \).

When the stock is overvalued, \( \delta > 0 \); when the stock is overvalued, \( \delta < 0 \).

Managers also maximize shareholders’ interests, \( E\delta(K, E) \), as managers take advantage of market investors’ misestimation of the firm’s share price by issuing shares and repurchasing shares to increase existing shareholders’ wealth. The manager issues new shares when the firm’s stock price is overvalued because of the low cost of financing and repurchases shares when the stock price is undervalued because of the relatively low market price.

In addition, when a firm implements a new investment or financing decision, it changes its current optimal capital structure. It is assumed to finance the new project through debt financing at a \( d \) ratio to maintain the optimal capital structure. Then \( (1-d) \) is the ratio of equity financing needed for the new project, and assuming that the amount of cash owned by the firm is \( C \) and the amount of financing in the stock market is \( E \), then the total amount of debt financing is \( M = K(1-d) - C - E \). When \( M > 0 \), the firm will need more debt financing, and at this point, debt financing will break the firm's optimal capital structure state. The more the value of \( M \) increases, the more the enterprise's loss; \( M < 0 \) when the enterprise can raise funds for new projects through debt financing. At this time, the absolute value of \( M \), the more significant the enterprise's loss is more minor.

Combining these three factors leads to the expression:

\[
F = \theta[f(K, E) - K + E\delta(K, E) - L(M)] + (1 - \theta)\delta(K, E)
\]

\( L(M) \) is the value of the loss of the business \( \theta \) is the short-sightedness of managers of listed firms, \( \theta \in [0, 1] \), \( \theta = 0 \) indicates that managers only care about stocks but completely ignore catering to investor sentiment for implementing investment behavior, and \( \theta = 1 \) indicates that managers only care about the long-term development of their firms and ignore short-term interests.

In summary, the value function of the manager maximizing the firm is:

\[
\max_{K,E} \theta[f(K, E) - K + E\delta(K, E) - L(M)] + (1 - \theta)\delta(K, E)
\]

The derivation is obtained:

\[
f''(K) = 1 - \left(E + \frac{1 - \theta}{\theta}\right)\delta'(K) - (1-d)[f'(E) + \delta(K, E) + \left(E + \frac{1 - \theta}{\theta}\right)\delta'(E)]
\]

That is, the marginal value of an investment is equal to the cost of capital per unit of investment minus market timing gains and managerial panading gains due to market mispricing of stocks.

3.2.2. Formulation of Hypotheses

The above analysis allows for a discussion of three scenarios based on capital market effectiveness:

Scenario 1: When the market is robust and efficient, all investors can rationally judge the intrinsic value of the enterprise under the state of complete symmetry of information, at this time \( f'(E) = \delta'(K) = L'(M) = \delta'(E) = 0 \), the optimal investment level is \( K = K^* \).

Scenario 2: In reality, the market cannot be fully efficient, in which case the firm issues shares and the managers have a long-term vision, \( E \neq 0 \) and \( \delta \neq 0 \), the formula is:

\[
f'(K) = 1 - E\delta'(K) - (1-d)[f'(E) + \delta(K, E) + E\delta'(E)]
\]

When the stock is overvalued \( f'(K) < 1, K > K^* \); when the stock is undervalued \( f'(K) > 1, K < K^* \). On the one hand, when the stock is overvalued when investor sentiment is high, investors believe that the enterprise has a better development trend, and the demand for stocks increases. At
this time, it is easier for enterprises to raise funds, and at the same
time, the cost of equity financing is lower. Enterprise
managers may obtain more funds, so the scale of investment
will be increased, or they may reduce the equity financing to
maximize the company's value. On the other hand, when the
stock price is overvalued when the cost of financing is lower,
the enterprise's investment projects may also change from
NPV<0 to NPV>0. However, at the same time, there may be
the risk of overinvestment and underinvestment.

Scenario 3: When firms do not issue shares in an
imperfectly efficient market and managers have a long-term
perspective, E = 0 and θ=1, Eq:

\[ f'(K) = 1 \]

At this point, managers do not pander to investor sentiment,
so corporate investments are not influenced by investor
sentiment.

Scenario 4: When firms issue shares in an imperfectly
efficient market and managers are short-sighted, E ≠ 0 and0 ≤
θ<1, which is then satisfied:

\[ f'(E) = \delta'(K) = L'(M) = \delta'(E) = 0 \]

At this time, investor sentiment can affect corporate
investment strategies.

Scenario 5: When firms in an imperfectly efficient market
do not issue shares and managers are short-sighted, E = 0 and
0≤ θ < 1, Eq:

\[ f'(K) = 1 - \left( E + \frac{1-θ}{θ} \right) \delta'(K) \]

The market's non-efficient premise of investor sentiment
will affect the investment of listed companies, and investor
sentiment is high. When the stock price is overvalued,
managers will cater to investor sentiment to raise the stock
price. This time, the enterprise investment scale rises, and the
level of investment is too high; on the contrary, the investor
sentiment is low. That is, when the stock price is
underestimated, the enterprise's investment scale declines and
the level of investment is too low.

Through the discussion of the above situation, it can be
found that when the enterprise managers are long-sighted if
the listed companies issue shares, the stock price is
overvalued when the issue of shares for financing increases
corporate investment so that the enterprise value to maximize
the contrary will be in the stock price is undervalued when the
abandonment of financing to make the enterprise scale
decline; when the enterprise managers are short-sighted if
the listed companies do not issue shares, it will cater to the
investor sentiment and will invest in specific projects to
obtain income when the stock price is overvalued to invest in
specific projects to obtain income. On the contrary, when the
stock price is undervalued will give up some investment
projects, and the enterprise investment level will decline.

In summary, the assumptions can be made: Investor
sentiment is positively related to the size of investment in
listed firms.

3.3. Empirical Modelling

3.3.1. Data collection

The above hypothetical reasoning proves whether the
hypotheses are valid or not through empirical analysis, which
is selected from the data of listed enterprises in China's A-
share market (including Shanghai and Shenzhen listed
enterprises) from 2012 to 2022, specifically from January
2012 to December 2022 data and the listed enterprises with
abnormal operation status and incomplete financial statement
data are excluded. The data are derived from the Cathay
Pacific database, the raw data are processed using EXCEL,
and the empirical research is conducted using STATA.

Selection of variables:

Explained variables:

Capital investment in the enterprise (inv): The
measurement of investment in the enterprise is based on the
accounts listed in the financial statements, which in this paper
is measured as "funds paid for fixed assets, intangible assets,
and other fixed and intangible assets/total assets at the
beginning of the period."

Explanatory variables:

Investor Sentiment (SENT): The quantification of investor
sentiment currently does not have a unified quantitative
standard and is difficult to calculate precisely. Small and
medium-sized investors mostly dominate China's capital
market. Investors mostly use past stock returns to anticipate
future stock value, so this paper adopts the semiannual
momentum effect of Hua Guiru, Liu Zhiyuan, and Xu Qian
(2010), i.e., the cumulative monthly stock return of the
enterprise in the previous six months.

Control variables:

Growth: the potential of a business to grow; the more
potential it has, the more likely it is to expand its investment.

Corporate cash flow (cash): Calculated as "net cash flow
from operations/initial total assets." Corporate cash flow is
included as a control variable because the cash flow from a
firm's operations can affect its investment in an imperfectly
efficient market.

Return on Assets (ROA): Calculated as "Net Profit /
Average Assets," a higher ROA indicates a higher profitability
of the company, which in turn influences the size of the
investment the company may make.

Enterprise size: Calculated as "the natural logarithm of the
enterprise's total assets at the beginning of the period." The
size of the enterprise responds to the scale of business
operations and capital; there will be more funds to invest in
investment, but at the same time, large-scale enterprises may
not have the incentive to expand, so the level of investment is
low, so the relationship between the size of the enterprise and
the level of enterprise investment is subject to further debate.

Gearing ratio (lev): Calculated as "corporate
liabilities/corporate assets." The higher the debt ratio, the
higher the constraints on investment and the lower the level of
investment; the lower the debt ratio, the smaller the
constraints on investment and the higher the level of
investment. Moreover, the external financing cost of the
enterprise will gradually increase with the rise of the gearing
ratio, and accordingly, the discount rate for evaluating the
return of investment projects will increase, the number of
investment projects that can be approved will decrease, and
the scale of investment will decline.

Administrative expenses (glfy): calculated as
"administrative expenses/enterprise main business income."
The higher the ratio of overheads to primary operating income,
the more it reflects the existence of management inefficiency
and expense depletion in the enterprise, and the higher the
overheads, the greater the investment problems of the
enterprise.
A summary of the measures of the variables selected for this paper is given below:

### Table 1. Calculation of selected variables

<table>
<thead>
<tr>
<th>Variant</th>
<th>Variable label</th>
<th>Variable Calculation Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital investment in enterprises</td>
<td>inv</td>
<td>Funds paid for fixed assets, intangible assets, and other fixed and intangible assets/total assets at the beginning of the period</td>
</tr>
<tr>
<td>Investor sentiment</td>
<td>sent</td>
<td>Cumulative monthly stock return for the previous six consecutive months</td>
</tr>
<tr>
<td>Enterprise growth</td>
<td>grow</td>
<td>Net change in principal activities/gross revenue from principal activities</td>
</tr>
<tr>
<td>Corporate cash flow</td>
<td>cash</td>
<td>Net cash flows from business operations/total assets at the beginning of the period</td>
</tr>
<tr>
<td>Return on assets</td>
<td>ROA</td>
<td>Net profit / (opening assets + closing assets)</td>
</tr>
<tr>
<td>Gearing</td>
<td>lev</td>
<td>Enterprise liabilities/enterprise assets</td>
</tr>
<tr>
<td>Enterprise size</td>
<td>size</td>
<td>Natural logarithm of total assets of the enterprise at the beginning of the period</td>
</tr>
<tr>
<td>Overheads</td>
<td>glfy</td>
<td>Administrative expenses/enterprise revenue from primary operations</td>
</tr>
</tbody>
</table>

#### 3.3.2. Construction of the empirical model

The following model is developed for the relationship between investor sentiment and the size of investment in listed firms in the construction industry:

\[
inv_{it} = \beta_0 + \beta_1\text{sent}_{it} + \beta_2\text{grow}_{it-1} + \beta_3\text{cash}_{it} + \beta_4\text{ROA}_{it-1} + \beta_5\text{size}_{it-1} + \beta_6\text{lev}_{it-1} + \beta_7\text{glfy}_{it} + \varepsilon
\]

In the model, i is a listed firm, t is a year, and all variables except investor sentiment (sent), firm cash flow (cash), and overheads (lev): firm growth (grow), gearing (ROA), firm size (size) and gearing (lev) are lagged one period data.

### 4. Findings and Conclusions

#### 4.1. Empirical results and analyses

With the above model, descriptive statistics, correlation coefficients between variables, and regression results were obtained through STATA data analysis and model regression.

##### 4.1.1. Descriptive statistics

<table>
<thead>
<tr>
<th>Variant</th>
<th>Typology variant</th>
<th>Observed value</th>
<th>Average value</th>
<th>Maximum values</th>
<th>Minimum value</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanatory variable</td>
<td>inv</td>
<td>26,238</td>
<td>0.2078</td>
<td>152.8018</td>
<td>0</td>
<td>1.2369</td>
</tr>
<tr>
<td>Account for variable</td>
<td>resid</td>
<td>23,861</td>
<td>0.0064</td>
<td>0.8710</td>
<td>-0.3219</td>
<td>0.0916</td>
</tr>
<tr>
<td></td>
<td>sent</td>
<td>26,238</td>
<td>0.0285</td>
<td>4.4700</td>
<td>-5.1081</td>
<td>0.0920</td>
</tr>
<tr>
<td>Containment variant</td>
<td>grow</td>
<td>26,238</td>
<td>0.5927</td>
<td>51.2807</td>
<td>-0.9113</td>
<td>1.8174</td>
</tr>
<tr>
<td></td>
<td>cash</td>
<td>26,238</td>
<td>0.0570</td>
<td>8.9405</td>
<td>-10.2162</td>
<td>0.1841</td>
</tr>
<tr>
<td></td>
<td>ROA</td>
<td>26,238</td>
<td>0.0156</td>
<td>3.6783</td>
<td>-9.9072</td>
<td>0.0869</td>
</tr>
<tr>
<td></td>
<td>lev</td>
<td>26,238</td>
<td>0.4587</td>
<td>2292.5130</td>
<td>-0.1947</td>
<td>14.1550</td>
</tr>
<tr>
<td></td>
<td>size</td>
<td>26,238</td>
<td>22.0045</td>
<td>31.0849</td>
<td>13.3696</td>
<td>1.4122</td>
</tr>
<tr>
<td></td>
<td>glfy</td>
<td>26,238</td>
<td>14.3097</td>
<td>183604.1</td>
<td>-111.3749</td>
<td>1188.712</td>
</tr>
</tbody>
</table>

As can be seen from the above table: 1. The average value of capital investment of China's listed enterprises is 0.2078, indicating that the investment ratio of the enterprises whose data are collected accounts for 20.78% of total assets, but the investment differences between enterprises are significant maximum value of 152.1808, minimum value of 0, and the level of investment is seriously polarised. 2. The average value of the residuals of the samples is 0.0064, which is close to 0, and China's listed enterprises are more effective on the surface, but intrinsic needs further research: 3. The surface view is more effective, but the inner still needs further research; 4. The average value of investor sentiment is 0.0285. The maximum value is 4.4700. The minimum value is -5.1081, visible in China's capital market investor sentiment ups and downs; 4. The standard deviation of the enterprise growth on the standard deviation of 1.8174, indicating that the
development of China's listed enterprises is uneven. The difference is enormous.

### 4.1.2. Correlation coefficients

<table>
<thead>
<tr>
<th></th>
<th>inv</th>
<th>sent</th>
<th>grow</th>
<th>cash</th>
<th>roa</th>
<th>lev</th>
<th>size</th>
<th>gify</th>
<th>glfy</th>
</tr>
</thead>
<tbody>
<tr>
<td>inv</td>
<td>1.0000</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>sent</td>
<td>0.0031</td>
<td>0.0436*</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>grow</td>
<td>0.0010</td>
<td>0.0081*</td>
<td>0.0779*</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>cash</td>
<td>0.0031</td>
<td>0.0081*</td>
<td>0.0779*</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>roa</td>
<td>0.0098</td>
<td>0.0203*</td>
<td>0.0027</td>
<td>-0.0203*</td>
<td>-0.7107*</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>lev</td>
<td>-0.0003</td>
<td>-0.0405*</td>
<td>0.0159</td>
<td>0.0379*</td>
<td>-0.0182*</td>
<td>-0.0089</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>size</td>
<td>-0.0017</td>
<td>-0.0111</td>
<td>0.9780*</td>
<td>-0.0111</td>
<td>0.0069</td>
<td>0.0011</td>
<td>0.0139</td>
<td></td>
<td></td>
</tr>
<tr>
<td>gify</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>glfy</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: * is significant at the 10 percent correlation level.

Analyzing the above table, investor sentiment is positively correlated with corporate investment, verifying the hypothesis.

### 4.1.3. Regression results

The regression of the above model is shown in the table below, where the regression result (1) is the effect of investor sentiment as a single factor variable on the size of corporate investment, and the regression result (2) adds control variables such as GROW and CASH.

<table>
<thead>
<tr>
<th>Variant</th>
<th>(1)</th>
<th>Full sample</th>
<th>(2)</th>
<th>Full sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.0852***</td>
<td>(82.5)</td>
<td>0.760***</td>
<td>(0.0025)</td>
</tr>
<tr>
<td>sent</td>
<td>0.0172**</td>
<td>(8.63)</td>
<td>25.3584*</td>
<td>(8.53)</td>
</tr>
<tr>
<td>grow</td>
<td>24.8101*</td>
<td>(0.0026)</td>
<td>0.0969***</td>
<td>(7.42)</td>
</tr>
<tr>
<td>cash</td>
<td>0.3475***</td>
<td>(6.72)</td>
<td>0.0013**</td>
<td>(1.21)</td>
</tr>
<tr>
<td>ROA</td>
<td>-0.01270</td>
<td>(-5.53)</td>
<td>0.0849</td>
<td>760.42</td>
</tr>
<tr>
<td>size</td>
<td>-0.0089</td>
<td>(-5.53)</td>
<td>26238</td>
<td>26238</td>
</tr>
<tr>
<td>lev</td>
<td>-0.01270</td>
<td>(-5.53)</td>
<td>0.0849</td>
<td>760.42</td>
</tr>
</tbody>
</table>

Note: *** *, **, and * indicate significance at the 1 percent, 5 percent, and 10 percent levels, respectively, and t-values within ()

According to the regression results, in regression results (1), the regression results of investor sentiment on the investment scale of listed enterprises are significant at the 1% level, and the hypothesis is valid; in the regression results (2), the investor sentiment is positive at the 10% significance level, which is the same as the results of the previous analysis; the regression coefficient of the balance sheet ratio (lev) is negative, and the height of the balance sheet ratio influences the investment level of the enterprise, and the higher the balance sheet ratio, The higher the gearing ratio, the greater the constraints on enterprise investment; the regression coefficient of enterprise size is significant, indicating that the larger companies in China's listed enterprises attach more importance to the level of investment, and focus on the expansion of the scale of investment based on the development of mature business.

The results obtained from the empirical evidence all validate the theoretical hypotheses, indicating that investor sentiment impacts corporate investment in the Chinese capital market.

### 4.2. Conclusion

#### 4.2.1. Research findings and shortcomings

This paper focuses on the impact of investor sentiment on the investment level of listed enterprises, firstly combing the relevant literature about investor sentiment and listed companies' investment scale and investment efficiency, and theoretically discussing the possible relationship between the two and making research assumptions, that is, the research proposition of this paper; secondly, in order to verify whether the assumptions are valid through the empirical method, the data of listed companies in China's A-share market are
selected for the empirical study. The final regression results argue that the assumptions are valid. The final regression results argue that the hypothesis is valid.

Although the hypotheses ultimately proposed are valid, there are some research flaws in this paper people:

This paper fails to achieve optimal screening for data selection. For example, although listed companies with incomplete financial reports and irregular operations are excluded, companies listed in both A-share and B-share and H-share are not excluded because the stocks of these listed companies are affected by a variety of market factors;

Although this paper verifies that the proposition of "investor sentiment has an impact on investment in listed enterprises" is valid, it does not further verify the impact of investor sentiment on specific aspects of corporate investment, such as the type of investment, investment efficiency, and specific segmentation of listed enterprises, so there is still much room for research on the emerging behavioral finance based on the theories in this paper. So, for the emerging behavioral finance based on the theory of this paper, there is still a lot of research space.

4.2.2. Recommendations of this paper

Based on the above research, this paper gives a few suggestions:

Investors, before participating in the investment, should have a certain degree of financial expertise to learn to understand, objectively, and rationally look at the market according to their assets to identify their risk tolerance, do not deliberately pursue "fast money," know the risks and benefits at the same time the truth. Colleagues should keep a "normal mind," not mindlessly follow the investment trend, comply with market laws and regulations, and invest cautiously.

For listed companies, this paper on investor sentiment has an impact on its argument; when investor sentiment rises, listed companies will increase the scale of investment; on the contrary, it will reduce the scale of investment, which for listed companies on its future development is prone to have a negative impact. Firstly, listed companies should make reasonable investment decisions, develop systematic investment behavior within the enterprise to implement the process, and not unthinkingly follow the wind investment. Investment needs to be a long-term vision, not stick to short-term interests but pay more attention to the long-term interests of the enterprise. Secondly, listed companies should be certified to review the investment analysis results of their investment strengths and weaknesses to improve the efficiency of the new investment. Finally, the enterprise should have the correct guidance role of investor investment and try to increase the market share of the investment. Lastly, enterprises should have the proper guidance to increase the transparency of market information as much as possible.

The market regulators should improve and perfect the market-related system for stock issuance and investment, and effectively supervise the market; give correct investment guidance to investors, strengthen the protection of investors, and enhance the transparency of market information; provide correct and adequate supervision and guidance to listed companies in their investment behaviors, and combine them with the potential industries of the country, and guide them to invest in the industries that are in line with the interests of the country and the people. Improve investment efficiency and enhance the efficiency of resource allocation for the whole society.

References


