

Abstract

The thesis investigates investor sentiment, proxied by grey market prices, being a common source for IPO underpricing, long-term underperformance of IPOs, and cycles in IPO volume. The paper contributes to the field of research by an updated German dataset from 2000 to 2010, and by investigating all main IPO market anomalies together with their common trigger. The results show evidence of a positive relationship between the investor sentiment and IPO underpricing, indicating the investor sentiment being an explanation for it. Moreover, the study shows investor sentiment being positively linked to offer prices – an evidence of issuers exploiting that sentiment. However, the long-term underperformance relative to the aftermarket price of IPOs from high underpricing periods - another evidence of investor sentiment being a source for IPO underpricing - has not been confirmed. Other hypotheses have also not been verified. They include higher IPO volume following high underpricing periods and long-term underperformance relative to the offer price of IPOs from high underpricing periods. Both these hypotheses would represent another confirmation of firms exploiting the investor sentiment. The statistically significant results are consistent with other papers. The insignificance might have been caused by the method of calculation or specifics of the German IPO market.

JEL Classification G10, G14, G32

Keywords IPO underpricing, investor sentiment, long-term underperformance, grey IPO markets, overoptimism, fundamental value, German market

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