

Investor sentiment and the demand for dividends

Amedeo De Cesari Mo Hao Arif Khurshed

Alliance Manchester Business School
mo.hao@postgrad.manchester.ac.uk

MOTIVATIONS

- Rationale for dividends:
 - Dividends are obscure (Miller and Modigliani 1961)
 - Dividends are straightforward (John and Williams 1985; Easterbrook 1984)
- Emerging literature: behavioural explanations
 - Dividend seeking investors (Hartzmark and Solomon 2013); demand from mutual funds (Harris, Hartzmark, and Solomon 2015)
 - Self-control, regret avoidance, mental accounting (Shefrin and Statman 1984; Shefrin and Thaler 1988), free dividend fallacy: dividends represent a safe, guaranteed source of revenue (Hartzmark and Solomon 2019)

- High sentiment \uparrow Speculative assets (Baker and Wurgler 2006) but high sentiment \uparrow dividend month premium (Jacobs 2015)
- Identified Gaps
 - Is the demand for dividends driven by behavioral factors?
 - What role does investor sentiment play?
 - Who are the primary drivers of dividend demand?

- Why we test the conjecture here?
 - Prevalence of retail investors(Allen et al. 2020; Brunnermeier, Sockin, and Xiong 2020; Bekaert, Ke, and Zhang 2022; Titman, Wei, and Zhao 2021)
 - One of the world's highest saving rates(OECD 2023)
 - A shortage of safe assets(Glaeser et al. 2017; Dong et al. 2021; Yang and Chen 2021)
- Higher dividend demand
 - Adopt the method from Hartzmark and Solomon (2013)

- The demand is negatively related to sentiment
 - Investor confidence indices from SIPF
 - Mutual fund flows
- The demand reflects the time-varying demand for safe assets
- The significant role of investor attention

MEASURING DIVIDEND DEMAND

The setting

Time	Announcement
07 March	Plan in annual report
31 May	Annual general meeting
20 June	Dividend announcement
25 June	Record day
26 June	Ex-dividend day

Table 1: Timeline of the dividend payout from Ping An (2019)

THE DIVIDEND DEMAND

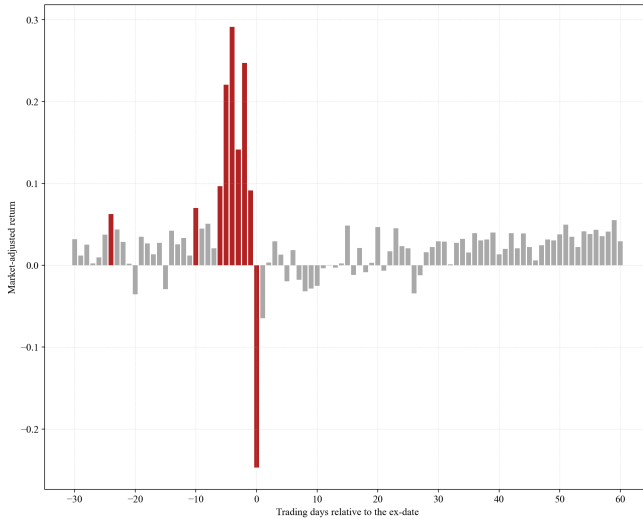


Figure 1: Interim period

- Collect annual dividends from 2011 to 2019
- Set the maximum interim period to 7 trading days
- Control for the the initial dividend announcement
- Accounted for variations in payment types

CONFIDENCE INDICES

	(1)	(2)	(3)	(4)	(5)	(6)
<i>Confidence</i>	-0.0145** (-2.38)					
<i>Buying</i>		-0.0198** (-2.66)				
<i>Defensive</i>			-0.0222*** (-2.72)			
<i>Optimism</i>				-0.0113** (-2.65)		
<i>Rebound</i>					-0.0202* (-1.97)	
<i>Valuation</i>						0.0479** (2.20)
Observations	9,924	9,924	9,924	9,924	9,924	9,924
R-squared	0.287	0.288	0.288	0.287	0.287	0.290
Controls	YES	YES	YES	YES	YES	YES
Company FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES

Table 2: Demand negatively related to sentiment across different indices

MUTUAL FUND FLOWS

	(1)	(2)	(3)	(4)
<i>Equity net flows</i>	-0.2149*** (-3.41)		-0.2149*** (-3.07)	
<i>Bond net flows</i>		0.1809*** (3.85)		0.1809** (2.41)
Constant	6.7048** (2.39)	5.3400* (1.92)	6.7048 (1.38)	5.3400 (1.11)
Observations	9,924	9,924	9,924	9,924
R-squared	0.287	0.287	0.287	0.287
Controls	YES	YES	YES	YES
Company FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Table 3: Relations with two types of bonds

INVESTOR ATTENTION

	(1)	(2)	(3)	(4)
<i>Inattention day</i>	-2.9392** (-2.01)			
<i>Inattention week</i>		-1.0694*** (-2.90)		
<i>Inattention month</i>			-0.4474*** (-3.18)	
<i>Inattention quarter</i>				-0.2332*** (-2.63)
Constant	6.7246** (2.02)	7.3305** (2.20)	8.6320** (2.54)	8.2372** (2.43)
Observations	9,924	9,924	9,924	9,924
R-squared	0.286	0.287	0.287	0.287
Controls	YES	YES	YES	YES
Company FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Table 4: Inattention weakens the demand

INVESTOR ATTENTION

	(1)	(2)	(3)	(4)	(5)	(6)
<i>Confidence</i>	-0.0170* (-1.80)					
<i>Buying</i>		-0.0234** (-2.09)				
<i>Defensive</i>			-0.0294** (-2.31)			
<i>Optimism</i>				-0.0145** (-2.24)		
<i>Rebound</i>					-0.0139 (-0.94)	
<i>Valuation</i>						0.0393** (2.09)
Constant	5.9233 (1.35)	4.7085 (1.09)	6.4498 (1.48)	5.7502 (1.32)	6.6191 (1.58)	5.2755 (1.22)
Observations	4,463	4,463	4,463	4,463	4,463	4,463
R-squared	0.385	0.386	0.387	0.386	0.385	0.387
Controls	YES	YES	YES	YES	YES	YES
Company FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES

Table 5:High investor attention

INVESTOR ATTENTION

	(1)	(2)	(3)	(4)	(5)	(6)
<i>Confidence</i>	0.0030 (0.28)					
<i>Buying</i>		0.0034 (0.26)				
<i>Defensive</i>			-0.0074 (-0.69)			
<i>Optimism</i>				0.0006 (0.08)		
<i>Rebound</i>					-0.0162 (-1.13)	
<i>Valuation</i>						0.1096*** (4.78)
Constant	31.9482** (2.17)	32.4020** (2.22)	35.1867** (2.23)	32.2693** (2.17)	33.5547** (2.31)	24.0162 (1.66)
Observations	4,412	4,412	4,412	4,412	4,412	4,412
R-squared	0.383	0.383	0.383	0.383	0.383	0.394
Controls	YES	YES	YES	YES	YES	YES
Company FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES

Table 6: Low investor attention

ALTERNATIVE SAFE ASSETS

	(1)	(2)	(3)	(4)
CommodityHouseIDX	-0.0359*** (-3.03)			
CommodityBelow90IDX		-0.0330*** (-3.28)		
Commodity144IDX			-0.0377** (-2.62)	
CommodityAbove144IDX				-0.0368*** (-2.86)
Observations	9,924	9,924	9,924	9,924
R-squared	0.288	0.288	0.264	0.288
Controls	YES	YES	YES	YES
Company FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Table 7: Commodity Housing Indices

ALTERNATIVE SAFE ASSETS

	(1)	(2)	(3)	(4)	(5)
<i>ResidentIDX</i>	-0.0411*** (-3.00)				
<i>SecondHandIDX</i>		-0.0404** (-2.39)			
<i>SecondHandBelow90IDX</i>			-0.0383** (-2.35)		
<i>SecondHand144IDX</i>				-0.0401** (-2.38)	
<i>SecondHandAbove144IDX</i>					-0.0445** (-2.58)
Controls	YES	YES	YES	YES	YES
Company FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Table 8: Residential and Second-Hand Housing Indices

ALTERNATIVE SAFE ASSETS

	(1)	(2)	(3)
<i>Gold price</i>	-0.0198* (-1.78)		
<i>Gold return</i>		-117.0188*** (-4.56)	
<i>Quarterly gold return</i>			-1.8574*** (-4.56)
Constant	7.0375** (2.09)	7.9644** (2.37)	7.9644** (2.37)
Observations	9,924	9,924	9,924
R-squared	0.288	0.289	0.289
Controls	YES	YES	YES
Company FE	YES	YES	YES
Year FE	YES	YES	YES

Table 9: Gold






Summary of Findings

- Negative relationship between dividend demand and sentiment
- Dividends are perceived as a safe haven
- Retail investors are the primary drivers, evidenced by:
 - Higher demand levels
 - Correlation with investor confidence indices
 - The role of investor attention







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