PREFERRED STOCK ETF AND INVESTOR ATTENTION

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ABSTRACT

This research tests market efficiency of assets by analyzing the effect of investor attention proxied by Google Trends Search on Preferred stock ETFs. This study employs a range of statistical models to examine the short-term and long-term relationship between preferred stock ETFs and investor attention, including the bivariate linear granger causality model and the Johansen cointegration technique. The findings of this study indicate that there is neither short-term causality nor long-term cointegration between preferred stock ETFs and investor attention. This underscores the efficiency of the market pertaining to these assets and the incorporation of information into the pricing of these Preferred stock ETFs. These findings are valuable to the investors and other stock market participants, illustrating the impact of Google Trends Search on the stock market.

Keywords: Preferred stock, ETF, Investor attention, Causality, Cointegration

1. INTRODUCTION

The impact of investor attention or sentiment on financial asset prices has garnered significant focus in academic literature, particularly following the recent dramatic fluctuations in stock markets. A growing body of empirical research has indicated findings suggesting a relationship between investor attention and asset returns. However, despite the rising significance and interest in this area, there remains limitations and challenges to the studies examining the direct impact of attention on investors' trading behavior and specifically Preferred stock exchange traded funds (ETFs). Thus, our study seeks to be one of the first to address this gap by investigating whether investor attention measured using google trends search index influences either in the short-term or in the long-term the Preferred stock ETFs in the U.S. If Preferred stock ETF returns are indeed influenced more by investor attention measured by Google Trends, then this supports the "*attention induced price pressure hypothesis*" (Da et al., 2011), specific to the Preferred stock asset type.

ETFs are a growing category of cost-effective index securities that are frequently compared to mutual funds. An ETF is structured to mirror a particular index by maintaining the same constituent assets and adhering to a specific weighting scheme. The primary aim of an ETF is to align its performance with that of the underlying asset, rather than surpass it. Also, these ETFs are often proxied as a measure of aggregate returns. The simplicity and affordability of ETFs, make trading in it appealing to individual or retail investors who are unsophisticated or uninformed investors who are more likely to chase trends.

ETFs, though introduced in 1993, are very different from mutual funds. The ETF portfolios offer greater transparency, and generally, their investment approach is passive, requiring minimal managerial expertise. This is one of the reasons we look at active ETFs in this study and specifically focus on Preferred stock ETF and its relationship with investor attention. Also, the short time-to-market of ETFs and their enhanced liquidity renders them better equipped to meet investor demand for popular investment themes. This is the reason for their growth and their growth made them one of the largest businesses in the world both in terms of active and passive assets under management. However, this swift growth and extensive appeal of these products have prompted inquiries into the factors that motivate investors to select them, as well as the function of ETFs within the larger financial markets.