

Return Predictive Ability of Modified Put-To-Call Ratio

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Abstract

The purpose of this study is to examine the predictive ability of a modified PCR recommended by this study. Past research has argued that PCR is only a market sentiment index and provides poor information in predicting price returns. However, we reasoned that the improved PCR (MPCR, hereafter), using the trader-initiated open interest, is not only an indicator of market sentiment, it also further reveals private information that can be used to predict price returns. In sum, the MPCR calculated by using the transaction proxies that obtain the private messages is inferred to be an information indicator that captures the behavior of informed traders.

Keywords

Put-call ratio, open interest, investor sentiment; informed trading, trader-initialed position.

JEL Classification: G10, G11, G14.