Abstract:

In emerging markets like Pakistan, hedging is considered more specifically a financial tool for reducing risk by firms. During the presence of asymmetric information, investors are uncertain about firms hedging activities. This situation certainly impacts investors' sentiments while conducting the transaction. This study certainly adds a new phenomenon in the literature of behavioral finance by addressing the impact of hedging on investors' sentiments in the presence of asymmetric information. The prior literature has discussed these three variables many times in different dimensions. Rare evidence in the literature has found that these three variables are tested in this particular dimension. For conducting the empirical evidence, on the availability of data, a sample size of 366 non-financial firms is taken which are registered in the Pakistan stock exchange. Initially, Pooled OLS and Panel fixed OLS estimations are used for estimation. These estimations have diseases of endogeneity, heteorskedasticity, and autocorrelation. In order to remove these diseases and for obtaining unbiased results, two-steps System GMM model is employed for concluding the study. Empirical evidence found that hedging has a positive relationship with investors' sentiments but asymmetric information is negatively associated with investors' sentiments. The empirical results also show the moderate impact of asymmetric information, in the presence of asymmetric information hedging has a positive impact on investors' sentiments but this relationship is not significant. Firms should employ those policies which reduce asymmetric environment and help them in achieving more benefits of hedging.