Abstract

This study investigates the role of market-wide investor sentiment on the level of information asymmetry and analyst forecast error. The study utilized the data of public listed firms of the USA and employed multiple regression fixed effect model to estimate the results. The results concluded that investor sentiment increases the information asymmetry and analyst forecast errors. That confirms that optimistic investor sentiment brings in the noise trading and unsophisticated trading mechanism in the stock market, thereby questioning the classical theory of finance, which only relies on the fundamental Analysis. The study provides important insights for the investors and analysts to incorporate behaviors and sentiments while undertaking valuation and trading decisions.