

ABSTRACT

Behavioral financial research documents that sentiments influence an investor's judgement approach in his/her financial decisions. Several studies have investigated the impact of investors' sentiments on stock returns but there is a grey area of whether investors' sentiments influence the firm value or not. The present study adds to the literature by investigating the nexus between investors' sentiments and firm value. For this purpose, a sample is taken from the non-financial sector of the Pakistan Stock Exchange for the period of five years from 2015 to 2019 to check the impact. The independent variable i.e., investors' sentiments are indexed based on the methodology of [Baker and Wurgler \(2006\)](#) and the dependent variable i.e., firm value is measured by Tobin's Q formula. Whereas, firm size, leverage, and sales growth are considered as control variables to improve the research's internal validity by reducing the impact of irrelevant and other external variables. Based on the post-estimation of the ordinary least square regression model, the GMM model is considered the best technique. Driscoll-Kraay standard errors regression is applied for robustness check. The empirical results document the presence of a statistically significant relationship between investors' sentiments and firm value. Therefore, it is recommended to the firm's managers that they should consider both internal and external sources while deciding on the firm. Because their decision not only affects the internal performance of the company but also indirectly affects the external performance by influencing the sentiments of the investors.

Keywords: Investors' sentiments; Firm value; Tobin's Q; PSX; GMM