Stress Financial Conclusions and Market/Sector
Price Movement 2001-2012
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Dr. Trevor Collier

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Standards Presentation

Study Objectives:
• To study the statistical relationship between the Kansas City Financial Stress Index (KCFSI) and S&P sector prices.

Research Approach:
• Univariate regression analysis

Model Specification:
SPY_t=a+b(KCFSI_t)
S_i=a+b(KCFSI_t)
SPY=S&P500 ETF
S_i=Sector ETF’s
i=The i-th Sectors
t=Time in months
KCFSI=Kansas City Financial Stress Index

Time Periods:
• 2001-2012
• 2003-2007
• 2009-2012

Hypothesis:
• Market and sector prices inversely related to with KCFSI: b<0

Conclusion:
01-12 Period: Slope coefficient have right sign and statistically significant
• R^2’s relatively low, highest for XLY: 34%
09-12 Period: Slope coefficient have right sign and statistically significant
• R^2’s range from .50-.75, highest for XLF: 75%
03-07 Period: Majority of slope coefficients are positive and statistically significant
• R^2’s quite low, little or no explanatory power

Summary: Hypothesis that b<0 held true for 01-12 & 09-12.
• Persistent declining negative values for KCFSI during 03-07 period results in positive slope coefficients. Does not violate original hypothesis.
• All 3 periods analyzed suggest KCFSI has predicator capabilities. Weakest explanatory power in 03-07 period.

Regression Results:
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