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Stress Financial Conclusions and Market/Sector
Price Movement 2001-2012
By: Brandon Capicotto
Advisors: Dr. Bob Dean & Dr. Trevor Collier

Brandon Capicotto
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_i)
SPY = S&P 500 ETF
S_i = Sector ETF’s
i = The ith 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.
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