ANALYZING & PREDICTING THE IMPACT OF NEWS ON THE ASI RETURN OF COLOMBO STOCK EXCHANGE THROUGH BLACK-LITTERMAN MODEL

P.R.S.G. Perera
(178119C)

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Department of Mathematics

University of Moratuwa
Sri Lanka

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“I declare that this is my own work and this thesis does not incorporate without acknowledgment any material previously submitted for a Degree or Diploma in any University or other institute of higher learning and to the best of my knowledge and belief it does not contain any material previously published or written by another person except where the acknowledgment is made in the text"

Signature: UOM Verified Signature Date: 03 Jan 2022

"I have supervised and accepted this thesis for the submission of the degree"

Signature of the supervisor: UOM Verified Signature Date: 03 Jan 2022

I dedicate my thesis work to my family.

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Abstract

Considering the historical data, we can conclude that news on attacks, international political problems, natural disasters, and protests have a negative impact on the stock market return while changes in Government Acts and Election period have a positive impact on stock market return. Further, Monetary & Fiscal policy changes and news on major investments have a neutral impact on the return.

The significance of the news has been tested using the t-distribution method. It concludes that Monetary & Fiscal policy changes and news on major investments don't have a significant impact on index returns while other selected events have a significant impact on the index returns.

By applying the Black-Litterman model together with hypothetical views, one can develop a P matrix to derive/ predict the return of the index movement. Therefore, an investor/analyst can consider the significance level of the news items (t-distribution results) and the type of impact (negative/positive) when assigning numbers and views for the P matrix.

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