DETECTING ABNORMAL MARKET BEHAVIOR USING RESAMPLING TECHNIQUES[1]

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Abstract

This article improves the assessment of market sentiment through risk neutral implicit density functions estimates. The main finding is an indicator of "abnormal market behavior", which allows us to measure the degree to which the market is behaving normally and is not expecting bad news. We test the results on two kind of events in four out of the five main crises in emerging markets of the last decade: defaults on debt and devaluations or strong depreciations. We find evidence that, in many cases, this new indicator could have anticipated the main critical episodes of the crises shortly ahead. We use confidence intervals based on bootstrap percentiles for the skewness and kurtosis of the implicit risk neutral density functions to detect whether the market behaves normally or shows excessive risk aversion.

Keywords: Market sentiment, risk aversion, implicit risk neutral density function, bootstrap, skewness and kurtosis.

JEL Codes: G14, G15, F34.

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