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ABSTRACT

We investigate how total, local, and global sentiment as well as idiosyncratic risk influences the mispricing of the American Depository Receipt (ADR). We find that sentiment in the US market corresponding to that in ADR's home share market is positively related to the price deviations between ADR and its home share. Relative to investor sentiment, idiosyncratic risk plays a key role in affecting the mispricing of ADR. In particular, a high local sentiment in home share markets increases the effect of idiosyncratic risk on the mispricing of ADR, whereas high global sentiment decreases that effect.

Keywords: American Depository Receipt; asset pricing; idiosyncratic risk; investor sentiment

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