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Abstract

In this dissertation I investigate the role of the news media in the formation of investor sentiment and its subsequent impact on the performance of the financial markets by applying empirical, experimental and linguistic methods. I present evidence that salient stimuli in the news media such as journalistic writing style, sentiment, uncertainty, and tone are as equally important as the factual content in influencing readers' emotions and perception of news. The economical facts media choose to cover and the way these facts are presented determines how investors feel about the economy in general and encourage them to revise their investment decisions. As a result, financial markets react to changes in investor sentiment both on the short notice and over time. Therefore, I argue that it is possible to extract indications of the future market developments by analysing the salient stimuli in news and constructing news-based predictive indicators. My research may be of interest to academics in behavioral finance as well as financial industry professionals that would like to incorporate behavioral factors in their predictive models.