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CUSTOMER SATISFACTION AND STOCK RETURNS: AN EMPIRICAL ANALYSIS

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Abstract

This thesis aims at investing whether investment strategies based on customer satisfaction can lead to building portfolios able to generate excess returns. If so, are these returns associated with higher stock market risk? What types of stocks are included in our portfolios (value, size and momentum)? First, we build portfolios based on ACSI and NCSI-UK scores (levels and changes) and observe their evolution through time. We find one portfolio, Portfolio 1, which trading rule consists of stocks scoring above the national average and experiencing positive change in customer satisfaction as compared to previous year, to perform better than any other portfolio. Secondly, the CAPM, the Fama-French three-factor model and the Carhart four-factor model are used to demonstrate evidence of abnormal returns among certain portfolios. Further, we assess the robustness of our results by performing the Breusch-Pagan test (for autocorrelation) and the Durbin-Watson test (for heteroskedasticity). We find Portfolio 1's coefficients not to be BLUE and regress again all portfolios using the Newey-West standard estimator. Our results show that portfolios made of highly satisfied customers both in terms of levels and changes generated abnormal returns with most of the models, in the U.S. (2002-2013) as well as in the U.K (2009-2014). We also discuss our results in the U.S. before and after the 2008 financial crisis. No evidence of real impact has been found regarding this matter.

Keywords: stock returns, customer satisfaction, abnormal returns, CAPM, Fama-French three-factor model, Carhart four-factor model, Breusch-Pagan test, Durbin-Watson test, Newey-West standard estimator.