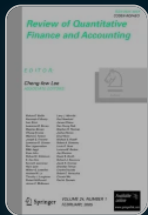


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# Risk, Mispricing, and Value Investing

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primarily by small (unsophisticated) investors and followed less closely by market participants (stock price <\$10). Finally, and most importantly, financial analysts are overly optimistic (pessimistic) about earnings of glamour (value) stock, and for a subset of firms identified as overvalued by our strategy, the earnings announcement *raw* return, as well as abnormal return, is negative. These last results are particularly important because it is hard to envision a model consistent with rational investors holding risky stocks with predictable negative *raw* returns for a long period of time rather than holding *fT*-bills and with financial analysts systematically overestimating the earnings of these stocks while underestimating earnings of stocks that outperform the stock market.

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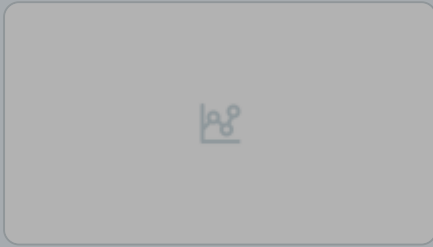
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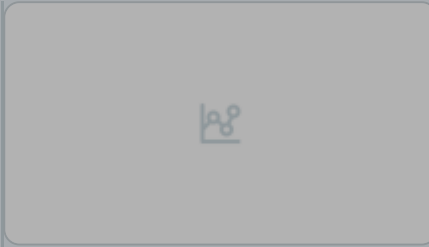
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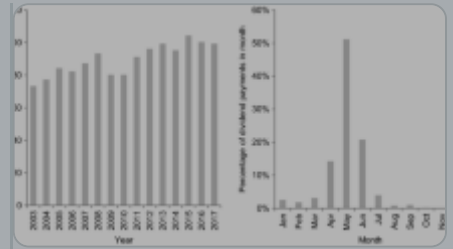
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