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# Spurious Regressions in Financial Economics?

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## ABSTRACT

Even though stock returns are not highly autocorrelated, there is a spurious regression bias in predictive regressions for stock returns related to the classic studies of **Yule (1926)** and **Granger and Newbold (1974)**. Data mining for predictor variables interacts with spurious regression bias. The two effects reinforce each other, because more highly persistent series are more likely to be found significant in the search for predictor variables. Our simulations suggest that many of the regressions in the literature, based on individual predictor variables, may be spurious.


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