A Tale of Two Anomalies: The Implications of Investor Attention for Price and Earnings Momentum

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Abstract

We examine the role of investor attention in explaining the profitability of price and earnings momentum strategies. Using trading volume and market state to measure cross-sectional and time-series variations of investor attention, we find that price momentum profits are higher among high volume stocks and in up markets, but that earnings momentum profits are higher among low volume stocks and in down markets. In the long run, price momentum profits reverse but earnings momentum profits do not. These results suggest that price underreaction to earnings news weakens with investor attention, but price continuation caused by investors' overreaction strengthens with attention.

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