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> [Daily Momentum and Contrarian Behavior of Index Fund...](#)

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Daily Momentum and Contrarian Behavior of Index Fund Investors

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Article contents

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Abstract

We use a two-year panel of individual accounts in an S&P 500 index mutual fund to examine the trading and investment behavior of more than 91,000 investors who have chosen a low-cost, passively managed vehicle for savings. We identify classes of momentum investors and contrarian investors. We use these classes to build up “behavioral factors” based on contrarian and momentum flows and we show that they are relevant for pricing. They perform well against a benchmark of loadings on latent factors extracted from returns.

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