May 01 1997

The Predictability of Stock Returns: A Cross-Sectional Simulation

Zsuzsanna Fluck, Burton G. Malkiel, Richard E. Quandt

The Review of Economics and Statistics (1997) 79 (2): 176–183.

https://doi.org/10.1162/003465397556764 Article history

Abstract

This paper investigates whether predictable patterns that previous empirical work in finance have isolated appear to be persistent and exploitable by portfolio managers. On a sample that is free from survivorship bias we construct a test wherein we simulate the purchases and sales an investor would undertake to exploit the predictable patterns, charging the appropriate transaction costs for buying and selling and using only publicly available information at the time of decision making. We restrict investment to large companies only to assure that the full cost of transactions is properly accounted for. We confirmed on our sample that contrarian strategies yield sizable excess returns after adjusting for risk, as measured by beta. Using analysts' estimates of long-term growth we construct a test of the Lakonishok, Shleifer, and Vishny (1994) hypothesis. We cannot reject the hypothesis that neither the low-expected-growth portfolio nor the high-expected-growth portfolio yielded any risk-adjusted excess return over the 1980s. Our finding suggests that the superior performance of contrarian strategies cannot adequately be explained by the superior performance of stocks with low expected growth.

Cited By

Related Articles

Rejoinder: The J-Shape of Performance Persistence Given Survivorship Bias

The Review of Economics and Statistics (May,1997)

Herding and Contrarianism: A Matter of Preference?

The Review of Economics and Statistics (January,2023)

Estimating the Returns to Insider Trading: A Performance-Evaluation Perspective

The Review of Economics and Statistics (May,2003)

Do Common Stocks Have Perfect Substitutes? Product Market Competition and the Elasticity of Demand for Stocks

The Review of Economics and Statistics (October,2014)

Related Book Chapters

Contrarian Semantics

Minds without Meanings: An Essay on the Content of Concepts

Eugenics Unbound: Survivorship for the Subhuman

The Eugenic Mind Project

Climate, Consensus, and Contrarians

The Environment: Philosophy, Science, and Ethics

Make Way for Hope: A Contrarian View

New Earth Politics: Essays from the Anthropocene

Online ISSN: 1530-9142 **Print ISSN:** 0034-6535

MIT Press Direct

About MIT Press Direct
Books
Journals
CogNet

Information

Accessibility at MIT
MIT Press Direct VPAT
For Authors
For Customers
For Librarians
Direct to Open
Open Access
Media Inquiries
Rights and Permissions
For Advertisers

MIT Press

About the MIT Press
The MIT Press Reader
MIT Press Blog
Seasonal Catalogs
MIT Press Home
Give to the MIT Press

Skip to Main Content

Contact Us

FAQ
Direct Service Desk