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Investor Optimism, False Hopes and the January Effect

Stephen J. Ciccone

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hypothesis. Similar reasoning may neip explain other anomalies.

Keywords:



Notes

1. A telephone survey conducted by Opinion Research Corporation in 2006 found that more than 80% of U.S. adults responding to the survey made a New Year's resolution sometime within the previous five years. Only 15% of those surveyed never make resolutions. Harris Interactive Healthcare Surveys found that 44% of U.S. adults made health-related New Year's resolutions in 2007 and 48% made such resolutions in 2006. The success rate of the more difficult resolutions was low. For example, in 2006 only 34% of those resolving to lose weight reported success in meeting that goal. Financial goals are popular resolutions. In another survey conducted by Opinion Research Corporation in 2009, the most common resolutions for 2009 were money-related as opposed to the more traditional health-related ones. Of those making resolutions, 59% said they would start or build retirement savings, and 47% said they would start or build an investment portfolio.



4. Two empirical issues are worthy of note. First, prior studies show that dispersion and optimism decrease as the fiscal year progresses (e.g., Richardson, Teoh, and Wysocki [2004]). However, because dispersion is computed monthly and the testing is performed monthly, any biases or trends are largely standardized across all observations in that month. There is still variation across reporting dates, but a robustness check including only firms with December 31 fiscal year-ends resolves this issue (see Table 6). Second, individual forecast dispersion, not individual forecast optimism, is relevant. In the context of this study, when dispersion is high, optimists exist and drive stock prices regardless of whether or not the consensus forecast is eventually revealed to be optimistic.

5. Although standard practice, using the logarithm of BE/ME eliminates firms with negative book-to-market ratios and therefore reduces the sample size for the regression model testing by about 5% versus the portfolio analysis. As a robustness check, the regressions are specified using BE/ME instead of log(BE/ME), which strengthens the conclusions.

6. The larger average size of firms covered by IBES and the relative dearth of micro-cap stocks eliminate the need to sort firms into size portfolios based on New York Stock Exchange breakpoints.



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