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Answering Financial Anomalies: Sentiment-Based Stock Pricing

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Pages 161-171 | Published online: 05 Dec 2007

Cite this article <https://doi.org/10.1080/15427560701547248>

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Notes

¹We assume the dividends have extremely high growth g_s , where $g_s > r$ until time T . Afterward, we assume dividends grow at a constant rate g_n , where $g_n < r$. The current price of the high-growth stock is then:

$$P_0 = \frac{DIV_1}{(r - g_s)} \left[1 - \left[\frac{1 + g_s}{(1 + r)} \right]^T \right] + \frac{DIV_1(1 + g_s)^{T-1}(1 + g_n)}{(1 + r)^T * (r - g_n)}$$

²See Sharpe [1978, p. 315] for a fuller description of this method.

³Future dividends are computed from the current dividends and the growth rate. The discount rate is computed using CAPM. The growth rate is computed from the company-specific information (usually a multiple of ROE and the plowback ratio).

⁴For details about the formula and a description of each term, see Shleifer [[2000](#), pp. 134-143].

⁵For a firm with abnormally high growth, Equation (3) can be modified accordingly.

⁶The ren index.

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