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# Value at Risk and Expected Stock Returns

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## Abstract

Stock size, liquidity, and value at risk (VAR) can explain the cross-sectional variation in expected returns, but market beta and total volatility have almost no power to capture the cross-section of expected returns at the stock level. Furthermore, the strong positive relationship between average returns and VAR is robust for different

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however, can yield an accurate characterization of actual portfolio risk during highly volatile periods. Therefore, the set of mean-variance-efficient portfolios may lead to an inefficient strategy for maximizing expected portfolio return while minimizing risk. Our findings suggest a new approach to optimal portfolio selection in a VAR framework. A mean-VAR approach can be introduced to allocate financial assets by maximizing the expected value of some utility function approximated by the expected return and VAR of the portfolio, as well as the investor's aversion to VAR.

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