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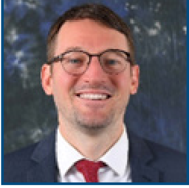
Does Cross-Sectional Return Extrapolation Explain Anomalies?



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We provide evidence that dividend-paying stocks are less exposed to return extrapolation than non-dividend-paying stocks (capital-gain stocks). In particular, social media sentiment and analyst price targets of capital-gain stocks are each significantly more sensitive to past returns. Consistent with models of return extrapolation, capital-gain stocks earn higher momentum and long-term reversal returns. The significant difference in returns is not explained by factors nor stock characteristics related to dividend status. The value premium, however, is similar among both groups. Collectively, our findings suggest that return extrapolation may be an important source of some anomaly returns.

Biography:

Dr. Lynch joined Hofstra University after receiving his PhD from Ohio State University in 2022. His research interests include empirical corporate finance, empirical behavioral finance, banking, and FinTech. His current papers explore the unintended consequences of liquidity injection programs, credit supply shocks induced by banking deregulation, and how masculinity and language impact CEO status and compensation, among other topics.