

VU Research Portal

On Drivers of Asset Pricing Factors

Vidojevic, M.

2019

document version

Publisher's PDF, also known as Version of record

[Link to publication in VU Research Portal](#)

citation for published version (APA)

Vidojevic, M. (2019). *On Drivers of Asset Pricing Factors*.

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal ?

Take down policy

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

E-mail address:

vuresearchportal.ub@vu.nl

CONTENTS

ACKNOWLEDGMENTS	vi
1 INTRODUCTION	2
1.1 General introduction	2
1.2 Thesis chapters	6
1.3 Practical relevance	12
2 THE PROFITABILITY OF LOW-VOLATILITY	14
2.1 Introduction	14
2.2 Data	16
2.3 Main results	18
2.4 Significance tests	22
2.5 Robustness to the choice of profitability measure	24
2.6 Robustness to measurement errors	26
2.7 Conclusion	31
3 THE IDIOSYNCRATIC MOMENTUM ANOMALY	34
3.1 Introduction	34
3.2 Discussion	38
3.3 Data and methodology	42
3.3.1 Data	42
3.3.2 Variable construction	44
3.3.3 Motivating results	45
3.4 Time-series, cross-section, and factor-spanning tests	47
3.4.1 Empirical results	47
3.4.2 Relationship with idiosyncratic volatility	55
3.4.3 Liquidity and transactions costs	57
3.4.4 Importance of factors in residualization	58
3.4.5 Industry effects	62
3.5 Explanations for the idiosyncratic momentum anomaly	66
3.5.1 Momentum crashes	68
3.5.2 Market states and dynamics	70
3.5.3 Link with underreaction	73
3.6 International evidence	78
3.7 Conclusion	82
4 MACRO DRIVERS OF LOW-VOLATILITY STOCK RETURNS	89
4.1 Introduction	89
4.2 Literature on low-risk anomaly	93
4.3 Motivating results	95
4.4 Methodology: firm-level VAR and portfolio dynamics	100
4.4.1 VAR specification	101
4.4.2 Return variance decomposition	102
4.4.3 From single stock to portfolio-level shocks	102
4.4.4 Impulse response function	104

4.5	Data	104
4.5.1	Clean surplus accounting earnings	106
4.6	Empirical results: VAR decomposition	107
4.6.1	Constant transition matrix	107
4.6.2	Baseline results	109
4.6.3	Other state variables	113
4.6.4	Return variance decomposition	117
4.7	Concluding remarks	120
4.8	Appendix	122
4.8.1	Relationship between dividend yield, return volatility, and bond sensitivity	122
5	BEHAVIORAL HETEROGENEITY IN RETURN EXPECTATIONS ACROSS EQUITY STYLE PORTFOLIOS	128
5.1	Introduction	128
5.2	The Model	134
5.3	Expected returns	137
5.4	Data	140
5.5	Results	141
5.5.1	Expected returns	141
5.5.2	Heterogeneous agent model estimation results	147
5.5.3	Chartists' expectation formation rules	151
5.5.4	Robustness to look-back for past performance evaluation	153
5.5.5	Restricted models	153
5.5.6	Trading strategies	158
6	CONCLUSION	161
	REFERENCES	165
	SUMMARY	174