RETURN ANOMALIES:
INSIGHTS FROM
INTERNATIONAL STOCK
MARKETS

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Abstract

This thesis work examines the return anomalies in the international stock markets. It has two features: (1) it includes a comprehensive range of emerging markets in addition to developed markets, and (2) it studies various anomaly variables simultaneously. This study mainly investigates three issues: whether return anomalies exist internationally, how to understand anomaly returns associated with investments, and what factors drive the international stock markets. To conclude, return anomalies associated with B/M, C/P, E/P, size, momentum, and accruals are observed pervasively. The relation between annual ROA and subsequent stock returns is dependent on size. Issue effect is more attributable to small stocks. Total asset growth effect is significant in developed markets and is stronger among small stocks, which is mainly due to low returns from big stocks with high investments and high returns from small stock with low investments. The findings pose challenges to behavioral explanations but support the rational based reasoning. Three parsimonious international three factor models with factors associated with “market, B/M, and size”, “market, C/P, and momentum” and “market, C/P, and accruals” perform similarly on various double-sorted portfolios, although the latter two factor sets perform a bit better.

Keywords: Asset Pricing, Market Efficiency, International Stock Market

JEL Classification Code: G12, G14, G15
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