Title:

Feasible earnings momentum in the U.S. stock market: An investor's perspective

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Abstract:

This paper examines earnings momentum strategies in the U.S. stock universe from an investor's perspective. Specifically, we use the software Stock Investor Pro from the American Association of Individual Investors (AAII) to obtain the composition of the U.S. stock universe from 2005-2015 on a weekly basis. Raw data is validated via Thomson Reuters Datastream. Next, we implement long-only and long-short earnings momentum strategies based on earnings estimates revisions. Furthermore, we develop a novel price-earnings momentum strategy by intertwining earnings momentum with a 52 week high strategy. Our findings re-confirm the high returns of the classical earnings momentum strategy with equal-weighted raw returns of 23.6 percent p.a. for the monthly long-only strategy. Most importantly, we find large parts of these raw returns to be robust to a wide spectrum of systematic sources of risk and feasible in light of market frictions, such as trading costs, liquidity constraints and microstructure effects. The enhanced price-earnings momentum strategy invests in earnings momentum stocks with below-median distance to their 52 week high. This simple alteration leads to an improvement of annualized raw returns to 31.0 percent, equally robust to systematic sources of risk and market frictions. We conclude that earnings momentum strategies are feasible and continue to pose a serious challenge to the semi-strong form of market efficiency.

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To find stocks with accelerating earnings, scan for stocks whose earnings-per-share have increased quarter-over-quarter for the past year and whose most

the short-term, a simple method for identifying potential momentum stocks is simply to scan for stocks that are yielding higher returns over the past three, six, or 12 months than the S&P 500 or another index. A first pass scan is likely to yield a large number of stocks, which can the High-momentum stocks are losing their appeal, and that trend goes beyond the reversal of the last two months. Recent research suggests that a longer-term shift in the markets may also be playing a role. That research finds both that the momentum effect is in large part caused by the behavior of retail investors, and that they represent a smaller and smaller proportion of overall trading volume. The study, “Retail Investors’ Contrarian Behavior Around News and the Momentum Effect,” began circulating in February in academic circles. And that’s exactly what we’re seeing, as illustrated in the chart at the top of this article. It plots the difference in annualized trailing 20-year returns of the highest-momentum and lowest-momentum stocks. The momentum investor believes that large increases in the price of a security will be followed by additional gains and vice versa for declini... Investing is not an easy thing to do, and there are many predators out there in the stock market trying to take your money, so make sure to do your research if you decide to become a stock picker. Otherwise, the much more simple (and far less time-consuming) way to invest is to just put your money into a low-cost index fund, which I believe is the way to go for the majority of individuals. Related Questions. More Answers Below. What is the safest duration for an investment in the stock market to double? Why do you think the stock market has been rallying for the last few weeks? How do I invest money ... Additional evidence from stock markets in the United States (Ammann, Moellenbeck, and Schmid [2011]; Foltice and Langer [2015]), the United Kingdom (Siganos [2007(Siganos [, 2010), and Switzerland (Rey and Schmid [2007]) has demonstrated that momentum trading profits can be attained by retail investors, even after factoring transaction costs and other pertinent market frictions, such as. 1 Several studies have presented strong empirical evidence that abnormal profits of momentum and reversal strategies exists in the US and non-US equity markets. A bivariate sort on earnings momentum and market capitalization yields gross Carhart alphas of up to 22% per year. Hence, we conclude that investors that are not willing or able to trade individual stocks