Mandatory Assignment 2

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Exercise 1: In this exercise we load all the necessary packages and data to perform the mandatory assignment.

Exercise 2: When computing the momentum we use the market capitalization as opposed to the stock price. The benefit of doing so, is that our computations are not affected by events that increase or decrease the number of outstanding stocks such as stock issuances or buybacks. If we had used the stock price in our computations as opposed to the market capitalization, such events would have artificially increased or decreased our calculated momentum.

Exercise 3: The equal-weighted average values of the 12-month momentum (Average_Mom_12) and market capitalization (Average_mktcap) is shown in the table below:

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    Mom_12_decile   Average_Mom_12   Average_mktcap
0               0       -61.823090        376.381229
1               1       -35.175439        971.245074
2               2       -20.360763       1650.683562
3               3        -9.181955       2348.254610
4               4         0.436961       2972.504687
5               5         9.995513       3354.098632
6               6        21.009727       3457.841605
7               7        35.781899       3092.281074
8               8        61.335879       2257.357388
9               9       208.713562       1370.936366
```