

Cross-stock momentum and factor momentum

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1. What are the research questions?

- Is there any feature of cross-stock momentum that separates it from factor momentum?

2. Why are the research questions interesting?

- The past return of one stock can predict the stock returns of other connected firms
 - It's difficult to distinguish between factor and pure firm-specific momentum when analyzing factor momentum and own-stock momentum
- Cross-stock linkages consist of an asymmetric component and a symmetric component.
 - The asymmetry can distinguish cross-stock momentum from factor momentum

3. What is the paper's contribution?

- Literature on the relationship between cross-stock momentum and factor momentum
 - Prior: Arnott et al.(2023) find that factor momentum subsumes industry momentum.
 - Ext: Cross-stock momentum is not entirely driven by factor momentum
- Literature on the understanding of factor momentum
 - Prior: Lo and MacKinlay (1990, p. 184) point out the possibility that positive autocorrelation in index returns “may be attributed solely to the positive cross-autocorrelations across securities”
 - Ext: Profits of factor momentum in Ehsani and Linnainmaa (2022) and Arnott et al., 2023 are mostly from high cross-stock links
- Literature on cross-stock momentum literature
 - Prior: The cross-stock linkages in previous studies are specified from economic insights and highly persistent over time
 - Ext: Pinpoint the time-varying feature of the cross-stock linkages responsible for return alphas
- Contribute to the asset pricing literature using ML
 - Ext: Find PP helps to characterize the cross-stock linkages and the optimal portfolio simultaneously

4. What hypotheses are tested in the paper? list them explicitly

- H1: The cross-stock momentum is not entirely driven by factor momentum, including momentum of potentially omitted factors.

(a) Do these hypotheses follow from and answer the research questions?

Yes

(b) Do these hypotheses follow from theory or are they otherwise adequately developed?

- Exploiting the asymmetry in cross-stock linkages, we find that the factor momentum profit is mostly derived from the high cross-stock links

5. Sample: comment on the appropriateness of the sample selection procedures

- Long Period CRSP data

6. Dependent and independent variables: the appropriateness of variable definition and measurement

- Independent variables are calculated appropriately

7. Regression/prediction model specification: the appropriateness of the regression/prediction model specification

- Concise and reasonable.

8. What difficulties arise in drawing inferences from the empirical work

- The empirical work is rigorous

9. Describe at least one publishable and feasible extension of this research

- The framework can be used for other networks.