The Fed - Cash-Hedged Stock Returns

Author:Chase P. Ross, Landon J. Ross, Sharon Y. Ross

Date:2022-08-01

Keyword:NA

Url:[click here](https://www.federalreserve.gov/econres/feds/cash-hedged-stock-returns.htm)

Attachment:[click here](https://www.federalreserve.gov/econres/feds/files/2022055pap.pdf)

From:FEDS-working\_paper

August 2022  
  
   
  
   
Cash-Hedged Stock Returns  
Chase P. Ross, Landon J. Ross, Sharon Y. Ross  
Abstract: Corporate cash piles vary across companies and over time. A firm's cash holding is an implicit position in a low-return asset that is correlated across firms. Cash generates variation in beta estimates. We show how investors can hedge out the cash on firms' balance sheets when making portfolio choices. We decompose stock betas into components that depend on the firm's cash holding, return on cash, and cash-hedged return. Common asset pricing premia — size, value, and momentum — have large implicit cash positions. Portfolios of cash-hedged premia often have higher Sharpe ratios because firms' cash returns are correlated.  
Keywords: cash, cross-section of expected returns, momentum, risk factor, size, value  
DOI: https://doi.org/10.17016/FEDS.2022.055  
  
PDF:  
Full Paper  
  
Related Materials: Accessible materials (.zip)