The percentage bid-ask spread (= dollar spread divided by the stock price)

$$R_{pm} = \gamma_0 + \gamma_1 \beta$$

Lev and Sougiannis (1996): “To address these concerns, we estimate the R&D capital of a large sample of public companies and find these estimates to be statistically reliable and economically meaningful. We then adjust the reported earnings and book values of sample firms for the R&D capitalization and find that such adjustments are value-relevant to investors.”

Sloan (1996): “This paper investigates whether stock prices reflect information about future earnings contained in the accrual and cash flow components of current earnings. The persistence of earnings performance is shown to depend on the relative magnitudes of the cash and accrual components of earnings. However, stock prices act as if investors fail to identify correctly the different properties of these two components of earnings”

Womack (1996): ” An analysis of new buy and sell recommendations of stocks by security analysts at major U.S. brokerage firms shows significant, systematic discrepancies between prerecommendation prices and eventual values. The initial return at the time of the recommendations is large, even though few recommendations coincide with new public news or provide previously unavailable facts. However, these initial price reactions are incomplete. For buy recommendations, the mean postevent drift is modest (+2.4%) and short-lived, but for sell recommendations, the drift is larger (-9.1%) and extends for six months. Analysts appear to have market timing and stock picking abilities”

Brennan, Chordia, and Subrahmanyam (1998): “We examine the relation between stock returns, measures of risk, and several non-risk security characteristics, including the book-to-market

book-to-market effects. Surprisingly, firms with high bankruptcy risk earn lower than average returns since 1980. A risk-based explanation cannot fully explain the anomalous evidence."

- MV is log of fiscal-year-end price times number of shares outstanding
- BIM is common equity divided by fiscal-year-end price times number of shares outstandin
- Z risk (bankruptcy risk, Altman (1968)) comprised of
  - Working capital/Total assets
  - Retained Earnings/Total assets
  - Earnings before interest and taxes/Total assets
  - Market value equity/Book value of total debt
  - Sales/Total assets
- O risk
  - SIZE = log(total assets/GNP price-level index).
  - $*$ TLTA = Total liabilities divided by total assets.
  - WCTA Working capital divided by total assets.
  - CLCA Current liabilities divided by current assets.
  - OENEG = One if total liabilities exceeds total assets, zero otherwise.
  - NITA Net income divided by total assets.
  - FUTL = Funds provided by operations divided by total liabilities.
  - INTWO = One if net income was negative for the last two years, zero otherwise.
  - CHIN = $(NI_t - NI_{t-1})/(|NI_t| + |NI_{t-1}|)$ where NI_t is net income for the most recent period.

Datar, Naik, and Radcliffe (1998): "In this paper, we provide an alternative test of A&M's model using the turnover rate as a proxy for liquidity and found strong support for A&M's model. In particular, we find that the stock returns are strongly negatively related to their turnover rates confirming the notion that illiquid stocks provide higher average returns." - Monthly Returns - turnover rate of every stock = monthly trading volume (the average number of shares traded during the previous three months, i.e., during months t- 3, t-2 and t-1) and divide it by the number of shares outstanding of that firm - turnover rate of every stock - book-to-market ratio, - firm size - firm beta

Moskowitz and Grinblatt (1999): " This paper documents a strong and prevalent momentum effect in ind ponents of stock returns which accounts for much of the individual sto tum anomaly. Specifically, momentum investment strategies, which buy p stocks and sell past losing stocks, are significantly less profitable once for industry momentum. By contrast, industry momentum investmen which buy stocks from past winning industries and sell stocks from p industries, appear highly profitable, even after controlling for size, book equity, individual stock momentum, the cross-sectional dispersion in m and potential microstructur"

Lee and Swaminathan (2000): "This study shows that past trading volume provides an important link between"momentum" and "value" strategies. Specifically, we find that firms with high (low) past turnover ratios exhibit many glamour (value) characteristics, earn lower (higher) future returns, and have consistently more negative (positive) earnings surprises over the next eight quarters. Past trading volume also predicts both the magnitude and persistence of price momentum. Specifically, price momentum effects reverse over the next five years, and high (low) volume winners (losers) experience faster reversals. Collectively, our findings show that past volume helps to reconcile intermediate-horizon "underreaction" and long-horizon "overreaction" effects"

Asness, Porter, and Stevens (2000): "Better proxies for the information about future returns contained in firm characteristics such as size, book-to-market equity, cash flow-to-price, percent change in employees, and various past return measures are obtained by breaking these explanatory variables into two industry-related components."

Piotroski (2000):

Chordia, Subrahmanyam, and Anshuman (2001): "A body of literature starting with Amihud and Mendelson (1986) has found that investors demand a premium for less liquid stocks, so that expected returns. should be negatively related to the level of liquidity. In this paper, we document negative and signi"cant cross-sectional relationship between average stock returns and the level as well as the second moment of measures of trading activity such as dollar volume and share turnover. Given the evidence that the level of liquidity affects asset returns, a reasonable hypothesis is that the second moment of liquidity should be positively related to asset returns, provided agents care about the risk associated with fluctuations in liquidity. Motivated by this observation, we analyze the relation between expected equity returns and the level as well as the volatility of trading activity, a proxy for liquidity. We document a result contrary to our initial hypothesis, namely, a negative and surprisingly strong cross-sectional relationship between stock returns and the variability of dollar trading volume and share turnover, after controlling for size, book-to-market ratio, momentum, and the level of dollar volume or share turnover. This e!ect survives a number of robustness checks, and is statistically and economically signi"cant. Our analysis demonstrates the importance of trading activity-related variables in the crosssection of expected stock returns."

Lamont, Polk, and Saaá-Requejo (2001): "We test whether the impact of financial constraints on firm value is observable in stock returns. We form portfolios of firms based on observable characteristics related to financial constraints and test for common variation in stock returns. Financially constrained firms' stock returns move together over time, suggesting that constrained firms are subject to common shocks. Constrained firms have low average stock returns in our 1968–1997 sample of growing manufacturing firms. We find no evidence that the relative performance of constrained firms reflects monetary policy, credit conditions, or business cycles. We construct various zero-cost portfolios that are long financially constrained firms and short less constrained firms and find three results. First, these portfolios capture common variation in stock returns not captured by other sources of return comovements. Thus we conclude that there is a financial constraints factor, an identifiable independent common source of economic

shocks to firm value. The evidence suggests that financial constraints do affect firm value and that the severity of constraints varies over time. Second, our investigation of the role of financial constraints in asset pricing reveals the surprising result that constrained firms earn lower returns than unconstrained firms, a result not explainable using existing asset-pricing models. Third, financially constrained firms do not have returns that are significantly more cyclical than average. Thus, the source of the common economic shocks to financially constrained firms remains an open question.The proxies are constructed based on Kaplan and Zingales (1995)"

Elgers, Lo, and Pfeiffer Jr (2001): "The paper documents that the weighthing of analysts annual earnings forecasts implicit in security prices is lower than the historical relation between the financial analysts forecasts and realized earnings. Our evidence that analysts the beginging of the year annual earnings forecasts are associated with abnormal security returns subsequently accumulated over the earnings year is consistent with the delayed price reaction to the value-relevant information in the posistions in the securityies in the bottom (top) deciles of the corss-sectional distribution of the analysts earnings forecasts early in the earnings year, generates statistically siginificant trading profits in the year after porfolio formation for firms with relatively low analysts coverage."

P. A. Gompers and Metrick (2001): "We analyze the investors preferences for the stock and the implications that these preferences have for stock-market prices and returns. We find that large institutional investors- a category including all managers with greater than $100 million under discretional control –have nearly doubled their share of the common staock from 1980 to 1996, with most of this increase driven by the growth in the holdings of the largest one hundred institutions."

Griffin and Lemmon (2002): "This paper examines the relationship between book-to-market equity, distress risk, and stock returns. Among firms with the highest distress risk as proxied by Ohlson (1980) 0-score, the difference in returns between high and low book-tomarket securities is more than twice as large as that in other firms. This large return differential cannot be explained by the three-factor model or by differences in economic fundamentals. Consistent with mispricing arguments, firms with high distress risk exhibit the largest return reversals around earnings announcements, and the book-to-market effect is largest in small firms with low analyst coverage."

Diether, Malloy, and Scherbina (2002): "We provide evidence that stocks with higher dispersion in analysts' earnings fore-casts earn lower future returns than otherwise similar stocks. This effect is mostpronounced in small stocks and stocks that have performed poorly over the pastyear. Interpreting dispersion in analysts' forecasts as a proxy for differences inopinion about a stock, we show that this evidence is consistent with the hypothesisthat prices will reflect the optimistic view whenever investors with the lowestvaluations do not trade. By contrast, our evidence is inconsistent with a view thatdispersion in analysts' forecasts proxies for risk."

Chen, Hong, and Stein (2002): " In this paper, we bring new evidence to bear on an asset-pricing hypothesis which has been around for a long while, but which has thus far not recieved

much empirical support. The idea, which dates back to Miller, has to do with the combined effects of short-sales constraints and differences of opinion on stock prices. We develop a model of stock prices in which there are both differences of opinion among investors as well as short-sales constraints. The key insights that emerge in that breadth of ownerwhip is a valuation indicator. When the breadth is low- when investors have long positions in the stock- this signals that hte short-sales constrarint in binding tightly, implying that prices are high relative to fundamentls and that expected reutrns are therefore low."

P. Gompers, Ishii, and Metrick (2003): "Shareholder rights vary across firms. Using the incidence of 24 governance rules, we construct a "Governance Index" to proxy for the level of shareholder rights at about 1500 large firms during the 1990s. An investment strategy that bought firms in the lowest decile of the index (strongest rights) and sold firms in the highest decile of the index (weakest rights) would have earned abnormal returns of 8.5 percent per year during the sample period. We find that firms with stronger shareholder rights had higher firm value, higher profits, higher sales growth, lower capital expenditures, and made fewer corporate acquisitions."

Doyle, Lundholm, and Soliman (2003): "We investigate the informational properties of pro

cantly positive abnormal stock returns that our sample firms' shareholders expe following these increases. We also find consistent evidence that our sample firm perience significantly positive long-term abnormal operating performance follow their R&D increases. Our findings suggest that R&D increases are beneficial in ments, and that the market is slow to recognize the extent of this benefit (cons with investor underreaction)." George and Hwang (2004): "When coupled with a stock's current price, a readily available piece of information 52-week high price-explains a large portion of the profits from momentum investi Nearness to the 52-week high dominates and improves upon the forecasting power past returns (both individual and industry returns) for future returns. Future retu forecast using the 52-week high do not reverse in the long run. These results indi that short-term momentum and long-term reversals are largely separate phenome which presents a challenge to current theory that models these aspects of secur returns as integrated components of the market's resp"

Jegadeesh et al. (2004)

Titman, Wei, and Xie (2004)

Cremers and Nair (2005)

Acharya and Pedersen (2005):

Measure of Illiquidity (based on Amihud, 2002):

$$ILLIQ_t^t = \frac{1}{Days_i} \sum_{d=1}^{t\ Days_t^i} \frac{|R_{td}^i|}{V_{td}^i} \tag{1.15}$$

Hou and Moskowitz (2005) Nagel (2005) Asquith, Pathak, and Ritter (2005) Mohanram (2005) Whited and Wu (2006) Ang et al. (2006) Anderson and Garcia-Feijoo (2006) Daniel and Titman (2006) Fama and French (2006) Bradshaw, Richardson, and Sloan (2006) Franzoni and Marin (2006) Narayanamoorthy (2006) Avramov et al. (2007) Kumar et al. (2008) Guo and Savickas (2008) Campbell, Hilscher, and Szilagyi (2008) Garlappi, Shu, and Yan (2008) Cooper, Gulen, and Schill (2008) Pontiff and Woodgate (2008) Cohen and Frazzini (2008) Fabozzi, Ma, and Oliphant (2008) Soliman (2008) Avramov et al. (2009) Hahn and Lee (2005) Rozeff and Zaman (1988) Lebedeva, Maug, and Schneider (2012) Fishman and Hagerty (1995) Cao, Field,

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