

Contents

I	Irrational Exuberance Reconsidered	1
1	Stock Market Overreaction and Portfolio Management - An Interview with Barbara Rega, CFA, and Bernd Meyer, CFA.....	3
1.1	Fundamental Valuation, Financial Modelling, and the Cross Section of Stock Returns	3
1.2	Equity Risk Premium	11
1.3	Behavioural Finance.....	13
1.4	Corporate Control.....	19
1.5	Outlook.....	24
2	Scope of Analysis	31
II	Overshooting in the Cross Section of Stock Returns: The Winner-Loser Effect	37
3	Literature	39
3.1	Methodology	39
3.2	Market Efficiency	40
3.3	The Winner-Loser Effect: Explanations	41
3.4	A More Detailed Look at the Literature	46
3.5	Summary	52

4	Empirical Evidence for Germany	53
4.1	The Winner-Loser Hypothesis and the Dataset.....	53
4.1.1	Hypothesis.....	53
4.1.2	Dataset.....	55
4.2	The Standard Approach.....	59
4.2.1	Evidence for the Pooled Sample	60
4.2.2	Test Methodology	65
4.2.3	Evidence on a Yearly Basis.....	69
4.2.4	Survivorship Bias.....	70
4.3	Transition Matrix.....	71
4.4	Summary	75
III	Explaining the Cross Section of Stock Returns: CAPM versus Fundamentals	77
5	Explaining the Winner-Loser Effect: Theory	79
5.1	Rational Asset Pricing	80
5.2	Unexpected Changes in Fundamentals and Unexpected Returns.....	85
5.3	Fundamentals and Rational Asset Pricing	88
5.3.1	Preliminary Remark	89
5.3.2	A Two-Period Framework	90
5.3.3	Expected Excess Returns during the Test Period.....	93
5.3.4	Excess Returns during the Formation Period.....	96
5.3.5	Intertemporal Dependence	98
5.3.6	Final Remark and Summary.....	101
5.4	Summary	102
6	The CAPM and the Winner-Loser Effect.....	103
6.1	Explaining the Winner-Loser Effect	104
6.1.1	Hypotheses.....	105
6.1.2	Estimation Results.....	106
6.1.3	Discussion	109
6.2	Expectation Building.....	112
6.2.1	Theory	112
6.2.2	Hypothesis and Empirical Results.....	113
6.2.3	Discussion	116
6.3	Summary	118

7 Fundamentals and the Winner-Loser Effect	121
7.1 Movements in Fundamentals.....	122
7.1.1 Dividends	124
7.1.2 Profits.....	126
7.1.3 Profit Components	129
7.1.4 Summary	134
7.2 Differences between the Winner and the Loser Portfolio - A Binary Choice Approach.....	135
7.2.1 Econometric Methodology.....	136
7.2.2 Estimation Results.....	137
7.2.3 Summary	144
7.3 Movements in Fundamentals and Changes in the Exposure to Systematic Risk.....	144
7.3.1 Hypothesis.....	145
7.3.2 Results	146
7.3.3 Discussion	149
7.3.4 Summary	151
7.4 Summary	151
8 Fundamentals versus Beta - What Drives Stock Returns?	153
8.1 Fundamentals versus Beta: A Horse Race.....	154
8.1.1 Hypotheses	154
8.1.2 Estimation Results.....	157
8.1.3 Summary	164
8.2 Time Horizon and Portfolio Effects, Nonlinearities.....	165
8.2.1 Hypotheses	165
8.2.2 Estimation Results.....	167
8.2.3 Discussion	173
8.3 Summary and Outlook.....	177
IV Corporate Control.....	183
9 Reversals in Stock Returns and Temporary Problems of Corporate Control.....	185
9.1 Problems of Corporate Control: Hypotheses.....	185
9.2 Estimation Results	190
9.3 Discussion	196
9.4 Summary	197

Conclusion	205
References	213
Author Index	223
Index	227