Does Consistency Of Firms’ Annual Returns Influence Investor Expectations?

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I examine whether relative consistency of a firm’s past annual price performance influences investors’ perceptions about its future prospects. I find a statistically significant return reversal for consistent losers. Consistently losing firms earn significantly higher size-and-book adjusted returns relative to their inconsistent loser counterparts for years 2 through 5 after return consistency is measured. However, consistently winning stocks have marginally underperformed their inconsistent winner cohorts. These results are obtained across estimation horizons and holding periods, except in the first post-formation year. Regression analyses reveal that consistency of firms’ annual returns predicts expected returns,, but consistent losers exhibit a more pronounced price reversal compared to other groups.

Key words: Consistent winners and losers; Return consistency; Price reversal; Behavioral finance model

JEL classification*:* G12; G14

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