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The 52-week high momentum strategy in international stock markets

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We study the 52-week high momentum strategy in international stock markets proposed by George and Hwang [George, T., Hwang, C.Y., 2004. The 52-week high and momentum investing. *Journal of Finance* 59, 2145–2176.]. This strategy produces profits in 18 of the 20 markets studied, and the profits are significant in 10 markets. The 52-week high momentum profits exist independently from the Jegadeesh and Titman [Jegadeesh, N., Titman, S., 1993. Returns to buying winners and selling losers: implications for market efficiency. *Journal of Finance* 48, 65–91.] individual stock and Moskowitz and Grinblatt [Moskowitz, T.J., Grinblatt, M., 1999. Do industries explain momentum? *Journal of Finance* 54, 1249–1290] industry momentum strategies. These profits do not show reversals in the long run. We find that the 52-week high is a better predictor of future returns than macroeconomic risk factors or the acquisition price. The individualism index, a proxy to the level of overconfidence, has no explanatory power to the variations of the 52-week high momentum profits across different markets. However, the profits are no longer significant in most markets once transaction costs are taken into account.

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1. Introduction

Many studies document that stock returns are predictable based on past price information. Among them, Jegadeesh and Titman (1993) (JT henceforth) show that when stocks are ranked into deciles based on past medium-term returns, the top decile portfolio (winners) continues to outperform the bottom decile portfolio (losers) in a medium-term period; DeBondt and Thaler (1985) document long-term reversals of portfolio returns.³ Moskowitz and Grinblatt (1999) (MG henceforth) claim that the medium-term momentum in individual stock returns is dominated by momentum in industry returns. Jegadeesh and Titman (2001) provide more recent evidence supporting the explanations of behavioral models, which incorporate both medium-term momentum and long-term reversals (e.g., Barberis et al., 1998; Daniel et al., 1998; Hong and Stein, 1999) over risk-based explanations. In a recent paper, George and Hwang (2004) (GH henceforth) propose an investing strategy different from that of JT. At the end of each month, GH rank stocks based on the ratio of the current price to the past 52-week high. They then construct a zero-investment portfolio from purchasing the top 30 percentile (winners) and selling the bottom 30 percentile (losers) stocks, and hold these positions for a medium term of 6 or 12 months. GH find that this trading strategy generates profits comparable to those of the JT strategy. They also show that this 52-week high strategy explains a large portion of the JT momentum profits and that there are no return reversals in the long run, inconsistent with the predictions of behavioral models. Their results, therefore, call for different theoretic models for the medium-term momentum and long-term reversals.

It is crucial that any anomaly in financial markets pass the out-of-sample test to show that the results are not an artifact of data-mining. The JT and MG momentum strategies have been extensively studied with international data in previous studies.⁴ To our knowledge, however, only a few papers have studied the 52-week high momentum strategy in international stock markets.⁵ Marshall and Cahan (2005) find significant profits of the 52-week high momentum strategy in the Australian stock market. They do not examine whether the 52-week high momentum profits reverse in the long run. Du (2008) finds that the 52-week high momentum profits reverse in the long run using 18 stock market indexes. Alsubaie and Najand (2008) find short-term price reversals, rather than price continuation, after stocks reach their 52-week highs in the Saudi stock market. Burghof and Prothmann (2009) show that the 52-week high strategy is profitable in the UK market and the profit is correlated with information uncertainty. In contrast, we conduct a more comprehensive study on the 52-week high investing strategy with individual stocks in 20 major stock markets. We examine the profitability and long-term performance of the GH strategy in international stock markets, and investigate the sources of these profits.

Our main findings are as follows. First, the 52-week high momentum effect is robust in international markets. In our sample of twenty major stock markets, eighteen show profits from this trading strategy. Among them, ten exhibit statistically significant profits, including nine out of thirteen European markets and the Hong Kong market. Their average monthly returns range from 0.60% to 0.94%, compared to 0.45% in the U.S. market in George and Hwang (2004). Eight and seven of these ten markets also have statistically significant JT and MG momentum profits, respectively. In seven markets (Japan, Norway, Russia, Singapore, South Korea, Spain, and Taiwan), none of the three momentum strategies has significant profits. Our results show that GH, JT, and MG momentum effects tend to coexist in a market.

Our second finding shows that, although the returns of these momentum strategies are highly correlated, the GH momentum profits still exist conditional on the JT or MG momentum. Unlike the

³ For ease of exposition, in this paper we use the phrase “medium-term” to describe the horizon of three to 12 months, and “long-term” to describe the horizon of 13–60 months.

⁴ In international markets, JT momentum has been documented by, among others, Rouwenhorst (1998, 1999), Chan et al. (2000), Hameed and Kusnadi (2002), Griffin et al. (2003), Hong et al. (2003), and Chui et al. (2003, 2010); MG momentum has been documented by Grundy and Martin (2001), Swinkels (2002), Nijman et al. (2004), and Giannikos and Ji (2007), etc.

⁵ The 52-week high information of individual stocks is readily available around the world. For example, among the 20 markets that we investigate in this paper, it is available in 19 markets from the *Financial Times* website, except Austria, where the 52-week high information can be obtained from the Vienna Stock Exchange website.

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