Agnostic fundamental analysis works

Söhnke M. Bartram, Mark Grinblatt

PII: S0304-405X(17)30315-X
DOI: 10.1016/j.jfineco.2016.11.008
Reference: FINEC 2838


Received date: 10 June 2016
Revised date: 17 October 2016
Accepted date: 25 November 2016

Please cite this article as: Söhnke M. Bartram, Mark Grinblatt, Agnostic fundamental analysis works, Journal of Financial Economics (2017), doi: 10.1016/j.jfineco.2016.11.008

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Agnostic fundamental analysis works

Söhnke M. Bartram*, Mark Grinblattb,*s.m.bartram@wbs.ac.uk

*Corresponding author: fax: +1 (425) 952 1070.

ABSTRACT

To assess stock market informational efficiency with minimal data snooping, we take the view of a statistician with little knowledge of finance. The statistician uses techniques such as least squares to estimate peer-implied fair values from the market values of replicating portfolios with the same accounting statements as the company being valued. Divergence of a company's peer-implied value estimate from its market value represents mispricing, motivating a convergence trade that earns risk-adjusted returns of up to 10% per year and is economically significant for both large and small cap firms. The rate of convergence decays to zero over the subsequent 34 months.

Keywords: Valuation, Asset pricing, Market efficiency, Fundamental analysis, Point-in-Time, Theil-Sen

JEL Classification: G11, G12, G14

This version: December 14, 2017

First version: January 20, 2014

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* We would like to thank William Schwert (the editor), and Richard Sloan (the referee) as well as Tom Aabo, Tim Adam, David Aboody, Senay Agca, Hank Bessembinder, Michael Brennan, Greg Brown, Adrian Buss, Ian Cooper, Tarun Chordia, Jean Dermine, Bernard Dumas, Alex Edmans, Peter Feldhütter, Wayne Ferson, Richard Frankel, Federico Gavazzi, Michael Goldstein, Robin Greenwood, Denis Gromb, John Hall, Luigi Guiso, Larry Harris, David Hirshleifer, Christopher Hrdlicka, Samuli Knupfer, Ralph Koijen, Sonia Konstantinidi, Alok Kumar, John Kuong, Wei-Hsien Li, Juhani Linnainmaa, Karl Lins, Marc Martos-Vila, James Ohlson, Anna Pavlova, Neil Pearson, Fulvio Pegoraro, Jeffrey Pontiff, Scott Richardson, Giuliano De Rossi, Rik Sen, Siew Hong Teoh, Sheridan Titman, Raman Uppal, Mathijs van Dijk, Theo Vermaelen, Russ Wermers and seminar participants at Aarhus University, Barclays Capital, Cardiff Business School, Chinese University of Hong Kong, Einaiudi Institute for Economics and Finance (EIEF), ESCP Europe, European School of Management and Technology, Frankfurt School of Finance and Management, George Washington University, Goethe University Frankfurt, Hong Kong University of Science and Technology, European Institute of Business Administration (INSEAD), Kühne Logistics University, London Business School, Manchester Business School, National Central University Taiwan, Princeton University, Queen Mary University London, University of Illinois at Chicago, University of New South Wales, University of Warwick, University of Washington, Centre for Economic Policy Research (CEPR) First Annual Spring Symposium in Financial Economics, Ninth Financial Risks International Forum on New Challenges Facing the Investment Management Industry, the 2017 Western Finance Association Annual Conference, 2016 annual meetings of the American Economic Association, 2015 Axioma Quant Forum, 2015 Inquire UK seminar, 2015 LA Finance Day, 2014 GEA conference in Kiel, Germany, the PhD Nordic Finance Workshop in Stockholm, Sweden, and the Seventh Conference on Professional Asset Management in Rotterdam, the Netherlands, for helpful comments and suggestions. Bartram gratefully acknowledges the warm hospitality of the UCLA Anderson School of Management, NYU Stern School of Business, London Business School, Center for Financial Studies (CFS)/House of Finance at Goethe University, EIEF and European University Institute during visits to these institutions. We thank James A. Ohlson and Seil KimYuan for helpful discussion of and providing Statistical Analysis System (SAS) code for the Theil-Sen estimation. Shao (Ken) Chang and Patrick Kiefre provided excellent research assistance. Kevin Aretz kindly provided data on default probabilities.

* University of Warwick, Warwick Business School, Finance Group, Coventry CV4 7AL, UK.

b UCLA Anderson School of Management, 110 Westwood Plaza, Los Angeles, CA 90095-1481, USA.
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