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Theodoros Evgeniou, Enric Junqué de Fortuny, Nick Nassuphis, Theo Vermaelen

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Theodoros Evgeniou*, Enric Junqué de Fortuny**,

Nick Nassuphis***, and Theo Vermaelen*

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Abstract

The buyback anomaly survives when using the five factor Fama and French (2015) and the four factor Stambaugh and Yuan (2017) models: buyback announcements are followed by positive long-term excess returns that are positively related to (idiosyncratic) volatility, inconsistent with the low volatility anomaly. The results are consistent with the costly arbitrage hypothesis (Stambaugh, Yu, and Yuan, 2015) as well as with the market timing hypothesis: the option to take advantage of undervalued stock is more valuable when firm value is more uncertain or is more driven by company-specific information. Combining volatility with undervaluation indicators proposed by Peyer and Vermaelen (2009) improves the predictability of excess returns after buyback announcements.

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*INSEAD, Bd de Constance, 77300 Fontainebleau, France, phone: +33(0)1 6072 4000, **Rotterdam School of Management, Burgemeester Oudlaan 50, 3062 PA Rotterdam, The Netherlands, ***CQS, One Strand, London WC2N 5HR, United Kingdom, e-mail: theodoros.evgeniou@insead.edu, enric.junquedefortuny@insead.edu, nicknassuphis@gmail.com, and theo.vermaelen@insead.edu. Contact author: Theo Vermaelen, INSEAD, Bd de Constance, 77300 Fontainebleau, France, phone: +33(0)1 6072 4000, email: theo.vermaelen@insead.edu.

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