

MASTER'S THESIS

Stock return reversal and continuance anomaly in Hong Kong: recent evidence from 2000 to 2010

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**Stock Return Reversal and Continuance Anomaly in
Hong Kong: Recent Evidence from 2000 to 2010**

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**A thesis submitted in partial fulfillment of the requirements
for the degree of
Master of Philosophy**

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ABSTRACT

This thesis comprehensively investigates the stock return reversal and continuance anomaly with weekly data in the Hong Kong stock market. Sampling period covers the latest 11 years from January 2000 to December 2010, total 574 weeks. Consistent with previous studies, I report that return reversal is more evident for the winner portfolio than for the loser portfolio in most cases. There is considerable contrarian profitability among small stocks and momentum profitability among large stocks. After controlling for the bid-ask spread bias, the arbitrage profitability still exists, especially for small stocks. However, when transaction costs are taken into consideration, most of arbitrage profits are not exploitable. Thus this thesis concludes that the Hong Kong stock market is in the weak form efficiency.

This thesis particularly examines the impact of the market movement would have on the anomaly. The results show that the return reversal and continuance anomaly is better observable when the market is blooming but less evident when the market is depressing.

After using Chan (1988)'s model to adjust for time-varying risks, this thesis still reports the existence of strong return reversal in winner portfolio and significant positive contrarian profits. Fama and French (1993 & 1996)'s three-factor model is also applied here to test stock abnormal returns for the portfolios. Only the market risk premium and the size factor have certain explanative power on the abnormal returns.

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