

VOL. 45, NO. 4 AUGUST 2010

MANAGING EDITORS
Hendrik Bessembinder
Stephen Brown
Paul Malatesta

ADVISORY EDITOR
Mark Grinblatt

ASSOCIATE EDITORS

Andrew Ang
Warren Bailey
Gurdip Bakshi
Mikhail Chernov
Jeffrey Coles
Jennifer Conrad
Jefferson Duarte
Wayne Ferson
Jarrad Harford
Jonathan Karpoff
Michael Lemmon
Francis Longstaff

Robert McDonald Wayne Mikkelson Neil Pearson

Ronald Masulis

John McConnell

George Pennacchi
Jeffrey Pontiff
Jav Ritter

Michael Roberts Bryan Routledge Sergei Sarkissian

Paul Schultz Chester Spatt

Hans Stoll
Ralph Walkling
Ivo Welch

David Yermack
Guofu Zhou

2009 Sharpe Award Winners

Estimating the Equity Premium
R. Glen Donaldson, Mark J. Kamstra, and Lisa A. Kramer

Rational Cross-Sectional Differences in Market Efficiency: Evidence from Mutual Fund Returns Paul Schultz

Idiosyncratic Risk, Long-Term Reversal, and Momentum R. David McLean

Arbitrage Risk and Stock Mispricing John A. Doukas, Chansog (Francis) Kim, and Christos Pantzalis

Behavioral and Rational Explanations of Stock Price Performance around SEOs: Evidence from a Decomposition of Market-to-Book Ratios Michael G. Hertzel and Zhi Li

Incorporating Economic Objectives into Bayesian Priors: Portfolio Choice under Parameter Uncertainty
Jun Tu and Guofu Zhou

Cross-Sectional Return Dispersion and Time Variation in Value and Momentum Premiums
Chris Stivers and Licheng Sun

Multiple Risky Assets, Transaction Costs, and Return Predictability: Allocation Rules and Implications for U.S. Investors

Anthony W. Lynch and Sinan Tan

Longer-Term Time-Series Volatility Forecasts Louis H. Ederington and Wei Guan

Stock Returns and the Volatility of Liquidity João Pedro Pereira and Harold H. Zhang

PUBLISHED BY CAMBRIDGE UNIVERSITY PRESS
FOR THE UNIVERSITY OF WASHINGTON
MICHAEL G. FOSTER SCHOOL OF BUSINESS
IN COOPERATION WITH THE UNIVERSITY OF UTAH
DAVID ECCLES SCHOOL OF BUSINESS
AND THE NEW YORK UNIVERSITY
LEONARD N. STERN SCHOOL OF BUSINESS



JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

A PUBLICATION OF THE
UNIVERSITY OF WASHINGTON
MICHAEL G. FOSTER SCHOOL OF BUSINESS
IN COOPERATION WITH THE
UNIVERSITY OF UTAH
DAVID ECCLES SCHOOL OF BUSINESS AND
NEW YORK UNIVERSITY
LEONARD N. STERN SCHOOL OF BUSINESS

VOL. 45, NO. 4, AUGUST 2010

2009 Sharpe Award Winners	
Estimating the Equity Premium	813
Rational Cross-Sectional Differences in Market Efficiency: Evidence from Mutual Fund Returns	847
Idiosyncratic Risk, Long-Term Reversal, and Momentum	883
Arbitrage Risk and Stock Mispricing	907
Behavioral and Rational Explanations of Stock Price Performance around SEOs: Evidence from a Decomposition of Market-to-Book Ratios Michael G. Hertzel and Zhi Li	935
Incorporating Economic Objectives into Bayesian Priors: Portfolio Choice under Parameter Uncertainty	959
Cross-Sectional Return Dispersion and Time Variation in Value and Momentum Premiums	987
Multiple Risky Assets, Transaction Costs, and Return Predictability: Allocation Rules and Implications for U.S. Investors	1015
Longer-Term Time-Series Volatility Forecasts	1055
Stock Returns and the Volatility of Liquidity	1077

MANAGING EDITORS

Hendrik Bessembinder

University of Utah

Stephen Brown New York University Paul Malatesta University of Washington

ADVISORY EDITOR

Mark Grinblatt

University of California, Los Angeles

ASSOCIATE EDITORS

Andrew Ang

Columbia University

Warren Bailey

Cornell University

Gurdip Bakshi

University of Maryland

Mikhail Chernov

London Business School

Jeffrey Coles

Arizona State University

Jennifer Conrad

University of North Carolina

Jefferson Duarte Rice University

Wavne Ferson

University of Southern California

Jarrad Harford

University of Washington

Jonathan Karpoff

University of Washington

Michael Lemmon

University of Utah

Francis Longstaff

University of California, Los Angeles

Ronald Masulis

Vanderbilt University

John McConnell

Purdue University

Robert McDonald Northwestern University

Wayne Mikkelson

University of Oregon

Neil Pearson

University of Illinois, Urbana-Champaign

George Pennacchi

University of Illinois, Urbana-Champaign

Jeffrey Pontiff

Boston College

Jay Ritter

University of Florida

Michael Roberts

University of Pennsylvania

Bryan Routledge

Carnegie Mellon University

Sergei Sarkissian

McGill University

Paul Schultz

University of Notre Dame

Chester Spatt

Carnegie-Mellon University

Hans Stoll

Vanderbilt University

Ralph Walkling

Drexel University

Ivo Welch

Brown University

David Yermack

New York University

Guofu Zhou

Washington University in St. Louis

STAFF

Business Manager, Susan Huot

Editorial Assistants

Sandra Leonard and Claudia Link

The Journal of Financial and Quantitative Analysis (ISSN 0022-1090), Michael G. Foster School of Business, University of Washington, 115 Lewis, Box 353200, Seattle, WA 98195-3200, is published bimonthly in February, April, June, August, October, and December by Cambridge University Press, 32 Avenue of the Americas, New York, NY 10013-2473/Cambridge University Press, the Edinburgh Building, Shaftesburg Road, Cambridge CB2 8RU, UK for the University of Washington Michael G. Foster School of Business in cooperation with the David Eccles School of Business at the University of Utah and the Leonard N. Stern School of Business at New York University. Periodicals Postage Paid at New York, NY and additional mailing offices. POSTMASTER: Send address changes to Journal of Financial and Quantitative Analysis, Cambridge University Press, 100 Brook Hill Dr, West Nyack, NY 10994-2133, USA.



JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS

PHONE: (206) 543-4598 University of Washington FAX: (206) 616-1894 Michael G. Foster School of Business E-MAIL: jfqa@uw.edu 115 Lewis Box 353200 URL: http://www.jfqa.org Seattle, WA 98195-3200 USA

VOL. 45, NO. 4, AUGUST 2010

PURPOSE AND FOCUS

The Journal of Financial and Quantitative Analysis (JFQA) publishes theoretical and empirical research in financial economics. Topics include corporate finance, investments, capital and security markets, and quantitative methods of particular relevance to financial researchers. Opinions expressed in the JFQA are those of the authors and do not necessarily reflect those of the University of Washington Foster School of Business. For submissions queries, please write, call, fax, or e-mail the JFQA office. For all other information related to the journal, please contact Cambridge Journals Customer Services: Cambridge University Press, 100 Brook Hill Drive, West Nyack, NY 10994-2133, USA. http://journals.cambridge.org/jfqa

SUBMISSIONS

www.editorialmanager.com/jfqa

It is JFQA policy to give prompt attention to all submitted manuscripts. Consistent with this policy, honoraria are paid to referees who provide timely reviews. Submit manuscripts online (www.editorialmanager.com/jfqa) with a \$220 submission fee for authors with a current individual subscription. Checks must be payable to the JFQA in U.S. dollars for deposit in a U.S. bank. VISA, MasterCard, and American Express are accepted. Manuscripts are considered for publication on the understanding that they have not been previously published in whole or in part, and are not being simultaneously considered for publication elsewhere.

SUBSCRIPTIONS

http://journals.cambridge.org/jfga

For individuals or institutions interested in a single journal subscription in 2010, please contact Cambridge Journals Customer Services. In the U.S., Canada, or Mexico, subscription fees are payable in U.S. dollars: journals_subscriptions@cambridge.org. Elsewhere in the world, subscription fees are payable in U.K. pounds sterling: journals@cambridge.org

2010 Annual Subscription Fees

Volume 45: February, April, June, August, October, and December

Category	Access Type	Price
Organizational	Online & Print	£182.00 / \$364.00
Organizational	Print only	£166.00 / \$333.00
Organizational	Online only	£156.00 / \$312.00
Individual	Online & Print	£40.00 / \$80.00
Individual	Print only	£35.00 / \$70.00
Individual	Online only	£30.00 / \$60.00
Student	Print only	£17.00 / \$25.00

RIGHTS AND PERMISSIONS

All rights reserved. No part of this publication may be reproduced, in any form or by any means, electronic, photocopying, or otherwise, without permission in writing from Cambridge University Press. General enquiries from the USA, Mexico, and Canada should be addressed to the New York office of Cambridge University Press http://www.cambridge.org/us/information/rights/contacts/newyork.htm; general enquiries from elsewhere should be addressed to the Cambridge office http://www.cambridge.org/uk/information/rights/contacts/cambridge.htm; permission enquiries from Australia and New Zealand should be addressed to the Melbourne office http://www.cambridge.org/aus/information/contactsmelbourne.htm; enquiries regarding Spanish-language translation rights (only) should be addressed to the Madrid office http://www.cambridge.org/uk/information/rights/contacts/madrid.htm.PhotocopyingInformation(forusersintheU.S.A.):Copyingforinternalor personal use beyond that permitted by Sec. 107 or 108 of the U.S. Copyright Law is authorized for users duly registered with the Copyright Clearance Center (CCC), provided that the appropriate remittance is paid directly to: CCC, 222 Rosewood Drive, Danvers, MA 01923 U.S.A. Specific written permission must be obtained for all other copying; contact the nearest Cambridge University Press office.

Announcing the Winners of the JFQA 2009 William F. Sharpe Best Paper Award

The William F. Sharpe Award for Scholarship in Financial Research recognizes researchers who, through their articles published in the JFQA, have most contributed to our understanding of important areas of financial economics. Nominees for the Sharpe Award are chosen by a vote of JFQA readers and Associate Editors; the winner(s), who receive a \$5,000 cash prize, is (are) selected by the Associate Editors.

The winners of the Sharpe Award for JFQA papers published in 2009 are

Rongbing Huang, Kennesaw State University Jay R. Ritter, University of Florida "Testing Theories of Capital Structure and Estimating the Speed of Adjustment" April 2009, Vol. 44, No. 2, pp. 237–271

Please join us in congratulating Professors Huang and Ritter for their accomplishments.

Hendrik Bessembinder Stephen Brown Paul Malatesta JFQA Managing Editors