
Name: Corey Pryor, Conor Flynn, George Cressy
Faculty Advisors: Dr. John Rapp & Dr. Bob Dean

1) Study Purpose
To determine if excess return distributions as measured by excess kurtosis are useful predictors of future stock returns.

2) Data Requirements
Monthly returns for 20 stocks, 2007-2011

3) Excess Return Model Specification
\[ ER_i = \frac{(R_{it} - R_{mt})}{R_{mt}} \]
\[ \overline{ER_i} = \frac{\sum_{t=1}^{n} (R_{it} - R_{mt})}{n} \]
Where:
\( ER_i \) = Average Excess returns for stock
\( R_{it} \) = Return to stock at time \( t \)
\( R_{mt} \) = Return to market at time \( t \)
\( \overline{ER_i} \) = Excess return for stock

4) Excess Kurtosis Model Specification
\[ EK_i = \sum_{t=1}^{n} \frac{(ER_{it} - \overline{ER_i})^4}{n - 1(\sigma_{ER_i})^4} - 3 \]
Where:
\( EK_i \) = Excess kurtosis for stock
\( t \) = monthly data, 12/31/06 – 12/31/10

5) Regression Model
\[ R_i = a + b \cdot (+EK) \]
\[ R_i = a + b \cdot (-EK) \]
Where:
\( R_i \) = Return for \( i^{th} \) stock 2011 (\( I = 1 \) – 20)
+\( EK_i \) = Excess Kurtosis for positive returns
-\( EK_i \) = Excess Kurtosis for negative returns

6) Cross Sectional Regression Results

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Ind Var</th>
<th>N</th>
<th>R²</th>
<th>A</th>
<th>B</th>
<th>T Stat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive Returns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12/31/10 - 4/30/11</td>
<td>+ EK</td>
<td>16</td>
<td>0.032126</td>
<td>0.054749</td>
<td>0.004516</td>
<td>0.681688</td>
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<tr>
<td>9/30/11 - 2/29/12</td>
<td>+ EK</td>
<td>16</td>
<td>0.070409</td>
<td>0.092967</td>
<td>0.013366</td>
<td>0.320589</td>
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<tr>
<td>2011</td>
<td>+ EK</td>
<td>16</td>
<td>0.265734</td>
<td>0.026545</td>
<td>0.028709</td>
<td>2.250924</td>
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<tr>
<td>Negative Returns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4/30/11 - 9/30/11</td>
<td>- EK</td>
<td>20</td>
<td>0.249835</td>
<td>-0.01929</td>
<td>-0.01382</td>
<td>-2.44842</td>
</tr>
<tr>
<td>2011</td>
<td>- EK</td>
<td>20</td>
<td>0.492338</td>
<td>0.186716</td>
<td>-0.02429</td>
<td>-4.17812</td>
</tr>
</tbody>
</table>

7) Conclusions
For +\( EK \)
- \( b \) is positive for all results
- \( R^2 \) is small
- Excluding stocks with extreme values both \( b \) coefficient and \( R^2 \) become more robust
- \( EK \) has predictive

For -\( EK \)
- \( B \) coefficients have right sign and are statistically significant
- \( R^2 \) – 25 to 49% of the variation in \( R_i \) is explained by \( EK \)