Gross Operating, Profit Momentum, and Stock Price Movement in the Cross Section of Returns in a Short Term Analysis

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Recommended Citation
"Gross Operating, Profit Momentum, and Stock Price Movement in the Cross Section of Returns in a Short Term Analysis" (2014).
Stander Symposium Posters. 459.
https://ecommons.udayton.edu/stander_posters/459
Flyer Fund Short Term Momentum Strategies: 
The Case for Gross Profits Growth 
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**Background:** A number of recent academic studies have concluded that gross operating profits may be a useful predictor of stock price movement, when examined in the cross section of returns. In this study, we focus on shifts in gross operating profits during a recent earnings period: August 31, 2011-August 31, 2013.

27 stocks currently in the UD Flyer Fund are used for the analysis. We calculated compound quarterly growth rates (CQGPR) in gross operating profits for both a 4 Quarter period and an 8 Quarter period. All data was retrieved from the Bloomberg Financial Database.

Using cross-sectional regression analysis, we regress the 4th and 8th quarter CQGPRs on the stock price changes over the same respective periods. The hypothesis to be tested is that the stock price movements are directly related to gross operating profit momentum.

**Objective:** Determining whether Flyer Fund stock prices co-vary with gross profit growth

**Model Specification:**

\[ CQGP_{it} = a + b(CQGPR_{it}) \]

where:
- \( a, b \) = intercept, slope coefficient
- \( CQGP = \) Compound Quarterly Growth Rate in Price
- \( CQGPR = \) Compound Quarterly Growth Rate in Gross Profits
- \( i = i^{th} \) stock
- \( t = (1) 4 \) Quarters, (2) 8 Quarters

**Conclusion:** For both regressions, \( b > 0 \) and statistically significant, indicating price and gross operating profits co-vary together. More data points are necessary in order to reduce small sample bias.