Abstract

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Return Anomalies: Disposition Effect and Momentum: Evidence from the Egyptian Stock Market

Momentum in stock returns has been first documented by Jegadeesh and Titman (1993) as the tendency of prior 3-12 months returns to continue. Since then it has attracted the attention of both academics and practitioners to analyze its persistence across different markets and provide reasonable explanations for its existence as one of the major puzzling phenomena in financial markets. The focus of this dissertation is to analyze whether disposition effect, the tendency of investors to sell their winning transactions and keep their losing ones, can explain momentum in the Egyptian stock market as one of the growing emerging markets using Grinblatt and Han (2005) model that uses capital gain overhang that is based on past returns and stock trading volume as a proxy for disposition effect. Through using double sorting methodology and Fama Macbeth (1973) cross-sectional regression the results of this dissertation show that there is neither significant momentum nor contrarian profits in the Egyptian stock market, in addition it shows that disposition effect does not drive momentum in the Egyptian stock market as there is no significant positive relation between capital gain overhang and future returns. This dissertation gives important implications that relative strength strategies do not generate abnormal profits in the Egyptian stock market and that return patterns are different from those of developed markets. Finally this dissertation recommends a detailed analysis of momentum in stock returns in recent years after the application of new trading mechanisms in the Egyptian stock market to analyze the effect of these trading mechanisms on the profitability of relative strength strategies.