

Accepted Manuscript

Cash Flow News, Discount Rate News, and Momentum

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PII: S0378-4266(16)30135-2
DOI: [10.1016/j.jbankfin.2016.07.016](https://doi.org/10.1016/j.jbankfin.2016.07.016)
Reference: JBF 4993

To appear in: *Journal of Banking and Finance*

Received date: 8 May 2015
Revised date: 4 June 2016
Accepted date: 29 July 2016

Please cite this article as: Umut Celiker , Volkan Kayacetin , Raman Kumar , Gokhan Sonaer , Cash Flow News, Discount Rate News, and Momentum, *Journal of Banking and Finance* (2016), doi: [10.1016/j.jbankfin.2016.07.016](https://doi.org/10.1016/j.jbankfin.2016.07.016)



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Highlights

- We examine the relation between aggregate cash-flow news, discount rate news and momentum in stock prices.
- We document that momentum in stock prices is statistically and economically stronger following positive cash flow news as compared to negative cash flow news
- Momentum is only weakly related to the discount rate news
- Momentum is both economically and statistically significant following positive cash-flow news even in down markets when past market returns are negative and when investor sentiment is pessimistic as measured by Conference Board survey data.
- The finding that momentum is higher following positive cash flow news is robust to the use of both risk-adjusted and characteristic-adjusted returns.

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