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## Expected Investment and the Cross-Section of Stock Returns

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### Abstract

In this paper, we show that the relation between expected investment and future stock returns (i.e., the expected investment-return relation) is negative and inconsistent with the multiperiod  $q$  theory. Further analysis reveals that the expected investment change measure of Hou et al. (2018a) is a poor proxy for future investment because of the mismatch of investment characteristics and the incorrect constraint imposed on the regression.

*Keywords:* Expected investment, Cross-sectional returns, Expected investment change, Multiperiod  $q$  theory

*JEL classification:* G11, G12, G17

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