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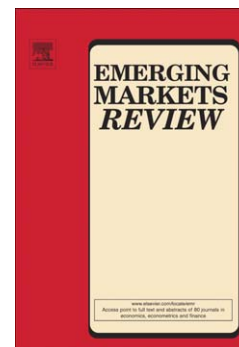
Testing for Stock Return Predictability in a Large Chinese Panel

Joakim Westerlund, Paresh Narayan, Xinwei Zheng

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# TESTING FOR STOCK RETURN PREDICTABILITY IN A LARGE CHINESE PANEL \*

Joakim Westerlund<sup>†</sup>

Lund University

and

Financial Econometrics Group

Centre for Research in Economics and Financial Econometrics

Deakin University

Paresh Narayan

Financial Econometrics Group

Centre for Research in Economics and Financial Econometrics

Deakin University

Xinwei Zheng

Deakin University

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## Abstract

This paper proposes a simple panel data test for stock return predictability that is flexible enough to accommodate three key salient features of the data, namely, predictor persistency and endogeneity, and cross-sectional dependence. Using a large panel of Chinese stock market data comprising more than one million observations, we show that most financial and macroeconomic predictors are in fact able to predict returns. We also show how the extent of the predictability varies across industries and firm sizes.

**JEL Classification:** C22; C23; G1; G12.

**Keywords:** Panel data; Bias; Cross-section dependence; Predictive regression; Stock return predictability; China.

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<sup>†</sup>Corresponding author: Department of Economics, Lund University, Box 7082, 220 07 Lund, Sweden. Telephone: +46 46 222 8997. Fax: +46 46 222 4613. E-mail address: joakim.westerlund@nek.lu.se.

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