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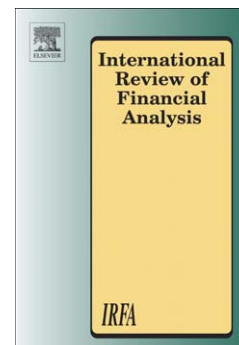
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Persistence of ex-ante volatility and the cross-section of stock returns

Prodosh Simlai¹**Abstract**

We suggest a new measure of total ex-ante volatility (*EAV*) in stock returns, which includes traditional non-market (or idiosyncratic) risk and the unexpected component of market return. We find that the portfolio-level *EAV* measure exhibits strong predictive power for the cross-section of average returns during the post-1963 period. We demonstrate that (1) the persistence of *EAV* gives rise to economically significant spread in returns between value and growth stocks, and (2) the cross-sectional dispersion in stock returns is positively related to the estimated value of *EAV*. The benefit of the *EAV* measure is that it is countercyclical and contains relevant information about the time-variation in value premium.

Keywords: value premium; ex-ante volatility; bivariate EGARCH model; cross-sectional returns

JEL Classification: G12; G14; G18; C53

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