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Gueorgui I. Kolev, Rasa Karapandza

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Out-of-Sample Equity Premium Predictability and Sample Split–Invariant Inference

GUEORGUI I. KOLEV [†]

Middlesex University Business School, London, United Kingdom

RASA KARAPANDZA [‡]

EBS Business School, Wiesbaden, Germany

Abstract

For a comprehensive set of 21 equity premium predictors we find extreme variation in out-of-sample predictability results depending on the choice of the sample split date. To resolve this issue we propose reporting in graphical form the out-of-sample predictability criteria for *every* possible sample split, and two out-of-sample tests that are invariant to the sample split choice. We provide Monte Carlo evidence that our bootstrap-based inference is valid. The in-sample, and the sample split invariant out-of-sample mean and maximum tests that we propose, are in broad agreement. Finally we demonstrate how one can construct sample split invariant out-of-sample predictability tests that simultaneously control for data mining across many variables.

JEL classification: G12, G14, G17, C22, C53

Keywords: equity premium predictability, out-of-sample inference, sample split choice, bootstrap

[†]Contact Author. Address: Middlesex University Business School, Room W214, London NW4 4BT, United Kingdom; Office Phone: +44 (0) 208 411 5150, Mobile Phone: +44 (0) 755 197 8531; Email: joro.kolev@gmail.com. We would like to thank Ronald W. Anderson, Rene Garcia, Benjamin Golez, and Abraham Lioui as well as two anonymous referees for detailed comments and suggestions. Remaining errors are ours.

[‡]Address: Department of Finance, Accounting & Real Estate, EBS Business School, Gustav-Stresemann-Ring 3, 65189 Wiesbaden, Germany; Tel: +49 611 7102 1244, Fax: +49 611 7102 10 1244; Email: rasa.karapandza@ebs.edu.

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