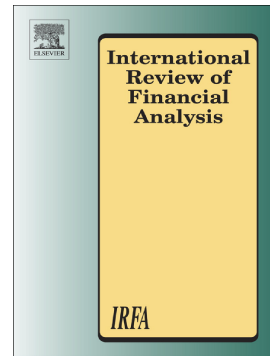


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The 52-Week High, Momentum, and Investor Sentiment*

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Abstract

This paper examines the link between the profitability of the 52-week high momentum strategy and investor sentiment. We hypothesize that investors' investment decisions are subject to behavioral biases when the level of investor sentiment is high, resulting in higher profits for the 52-week high momentum following high-sentiment periods. Our empirical results confirm this prediction. In addition, we find that the significant profit of the 52-week high momentum following high-sentiment periods persists up to five years. Further investigations show that the strong persistence of the 52-week high winners (losers) is concentrated in stocks with higher (lower) earnings surprises, especially during periods following high sentiment. Overall, our results provide supportive evidence for the anchoring biases in explaining the 52-week high momentum, especially when the role of investor sentiment is taken into account.

JEL Classification: G11; G12; G14.

Keywords: 52-week high; Momentum profits; Investor sentiment; Earnings announcement.

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