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Monthly Cyclicity in Retail Investors' Liquidity and Lottery-type Stocks at the Turn of the Month

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Abstract

The well-documented underperformance of lottery stocks masks a within-month cyclical pattern. Demand for lottery stocks increases at the turn of the month, especially in areas whose demographic profile resembles that of typical lottery-ticket buyers (i.e., gamblers), thus driving their prices higher. This effect is rooted in local retail investors' preference for lottery stocks and propelled by the within-month cyclicity of local investors' personal liquidity positions. A long-short investment strategy based on this cyclical pattern of lottery stocks' performance yields gross abnormal returns of about 12.6% per year.

Keywords

Lottery-type stocks; Turn of the month effect; Gambling

JEL classification

G14

1. Introduction

In spite of the prominence of institutional investors in equity markets, retail investors retain an important role in the pricing of some stocks especially those with lottery-like features (Blau et al., 2016; Kumar et al., 2016). These "lottery-type stocks", typically with low price and high idiosyncratic volatility and skewness, are known to particularly attract retail investors' attention (Kumar, 2009; Han and Kumar, 2013) and represent a substantial portion of the

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