

Accepted Manuscript

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PII: S0927-5398(17)30109-3
DOI: <https://doi.org/10.1016/j.jempfin.2017.11.005>
Reference: EMPFIN 1015

To appear in: *Journal of Empirical Finance*

Received date: 10 March 2017
Revised date: 17 November 2017
Accepted date: 17 November 2017

Please cite this article as: Chang R.P., Ko K.-C., Nakano S., Rhee S.G., Residual momentum in Japan. *Journal of Empirical Finance* (2017), <https://doi.org/10.1016/j.jempfin.2017.11.005>

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Residual Momentum in Japan^{*}

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November 2017

Abstract

We demonstrate that the residual momentum strategy, which is constructed to hedge out the risk exposure to the Fama-French (1993) factors, is profitable in Japan for short-term holding periods ranging from three to 12 months. Residual momentum profits over long-term holding periods ranging from two to five years do not reverse, unlike traditional price momentum strategies observed in the U.S. market. The findings in both short- and long-term holding periods are attributed to investor underreaction. A comprehensive index of limited attention supports investor underreaction as the underlying causes of momentum in Japan.

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