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Abstract

The majority of common stocks that have appeared in the Center for Research in Security Prices (CRSP) database since 1926 have lifetime buy-and-hold returns less than one-month Treasuries. When stated in terms of lifetime dollar wealth creation, the best-performing 4% of listed companies explain the net gain for the entire US stock market since 1926, as other stocks collectively matched Treasury bills. These results highlight the important role of positive skewness in the distribution of individual stock returns, attributable to skewness in monthly returns and to the effects of compounding. The results help to explain why poorly diversified active strategies most often underperform market averages.

JEL categories: G11, G23

Keywords: individual stock returns, return skewness, buy-and-hold returns, wealth creation

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