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# Higher-moment liquidity risks and the cross-section of stock returns[*]

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## Abstract

In this paper, we derive higher-moment liquidity risks theoretically and examine whether they are empirically priced. We discover that when investors add trading cost to the utility function, the expected return of a stock should contain premia related to three higher-moment liquidity risks. We show that one of our higher-moment liquidity risks, or liquidity coskewness risk, measures an individual stock's marginal contribution to the skewness of portfolio liquidity and is consistently priced. In addition, our analysis of the Hansen-Jagannathan distance and the maximum Sharpe ratio show that the liquidity coskewness risk plays a substantial role in asset pricing and portfolio management.

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