The High-Volume Return Premium: Evidence from Chinese Stock Markets

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Abstract

The paper examines whether extreme trading activity contains valuable information about the future evolution of stock prices. A zero investment portfolio by buying all the high-volume stocks and selling all the low-volume stocks earns a 3.08% average net return and a volume-size portfolio by buying all the high-volume and small-firm stocks and selling all the low-volume and large-firm stocks earns an 8.97% average net return while a momentum portfolio by buying all the winners and selling all the losers based on returns on the formation days yields a -2.65% average net return over the next 30 trading days after initial volume shocks. Portfolios constructed on share turnovers behave similarly. The results suggest that there exist a high-volume return premium in Chinese stock markets and that Chinese stocks exhibit a short-term reversal. Firm size and portfolio construction don't change the results even thought the magnitude of the premium varies with firm size.

JEL Classifications: G12, G14, G15

Key words: High-volume return premium; zero investment, volume-size, and momentum portfolios, short-term reversal

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