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Do Market Anomalies Add Up?

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The implications from market anomaly studies suggest that trading based on price earnings ratios, size, price book, momentum and volatility can produce excess returns. The purpose of this study is to determine the magnitude of excess returns that these anomalies can generate, how often they work, when they work and can they be combined to enhance returns even further. Based on the last 20 years, findings suggest excess returns are still available for some of these anomalies with the probability of success reaching up to 90% for any given 6 month period. When combining anomalies, returns are not always greater due to the necessary relaxation of the portfolio selection constraints. PE, size and PB continue to be highly correlated with returns while beta and volatility appear to be functional risk metrics.

JEL Codes: G11 and G12