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ORIGINAL ARTICLE

Momentum meets value investing in a small European market

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Abstract In this paper, we investigate two prominent market anomalies documented in the finance literature – the momentum effect and value-growth effect. We conduct an out-of-sample test to the link between these two anomalies recurring to a sample of Portuguese stocks during the period 1988–2015. We find that the momentum of value and growth stocks is significantly different: growth stocks exhibit a much larger momentum than value stocks. A combined value and momentum strategy can generate statistically significant excess annual returns of 10.8%. These findings persist across several holding periods up to a year. Moreover, we show that macroeconomic variables fail to explain value and momentum of individual and combined returns. Collectively, our results contradict market efficiency at the weak form and pose a challenge to existing asset pricing theories.

Keywords Value-growth effect · Momentum effect · Macroeconomic factors · Stock market · Portugal

JEL Codes: G11 · G12 · G14 · G15

The original version of this article was revised: The article title is now corrected.

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