Academic Research

Trend salience, investor behaviours and momentum profitability

There is strong empirical evidence that investors have tendencies to extrapolate trends in time-series data. However, not all trends are extrapolated. It has been shown that when an investor considers a trend salient they will act as trend followers, however, when a trend is considered non-salient, they expect mean reversion. The issue of trend salience is important for momentum strategies. This paper calculates a proxy for trend salience: the ratio of short-term (e.g. 3-months) geometric average rate of return to medium-term (e.g. 12-months) geometric average rate of return. A trend that is increasing is argued to be more salient than a trend that is decreasing. Using this proxy for trend salience, the authors construct a momentum strategy that excludes stocks with non-salient trends. This augmented momentum strategy is shown to have statistically higher returns than the traditional momentum strategy.

Click on the below link to read more about this research:

Academic Research (https://www.sciencedirect.com/science/article/pii/S0927538X1530007X)

Important information

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Hurst, G., & Docherty, P. (2015). Trend salience, investor behaviours and momentum profitability. *Pacific-Basin Finance Journal*, 35, 471-484.