ISBN 978-80-7668- 023-5, IISES

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SKEWNESS MOMENTUM IN THE UK STOCK

Abstract:

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Both standard and nonstandard preferences in finance, supported by empirical evidence, suggest that expected stock returns are inversely related to the third moment of their distribution (i.e., skewness). Contrary to prior findings, this work provides empirical evidence of a positive association between expected returns and skewness in the UK stock market. This skewness-based momentum remains robust when tested against related pricing anomalies, specifically price momentum and Lottery-like effect. In addition, many potential explanations—both risk-based and behavioral—but none can fully account for the observed skewness effect. To some extent, the observed pattern can be attributed to the continuous overreaction.

Keywords:

Keywords: Skewness, Overreaction, behavioral biases.

JEL Classification: G12, G02