

CASH-FLOW NEWS, MARKET LIQUIDITY AND LIQUIDITY RISK

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ABSTRACT

This paper decomposes the unexpected stock return and unexpected excess stock return. Our main findings are summarized as follows: first, cash-flow news is the main driver of stock return and excess stock return. Second, the dividend payout ratio is able to predict stock return and excess stock return. Third, under the model of stock return variance, unexpected market liquidity and unexpected liquidity risk are negatively related to expected stock return news. Fourth, under the model of excess stock return variance, unexpected market liquidity and unexpected liquidity risk are negatively related to cash-flow news, expected excess stock return news, and interest rate news.