

The Long-Run Reversal in the Long Run: Insights from Two Centuries of International Equity Returns

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Abstract

We perform the most comprehensive test of long-term reversal in national equity indices ever done. Having examined data from 71 countries for the years 1830 through 2019, we demonstrate a strong reversal pattern: the past long-term return negatively predicts future performance. The phenomenon is not subsumed by other established cross-sectional return patterns, including the value effect. The long-term reversal is robust to many considerations but highly unstable through time. Finally, our findings support the overreaction explanation of this anomaly.

Keywords: Long-Term Reversal, Long-Run Reversal, Country Equity Indices, Early Security Data, Equity Anomalies, Asset Pricing, Return Predictability

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