Excess comovement and investor attention in Japan*

Toshifumi Tokunaga†

Musashi University

t-tkng@cc.musashi.ac.jp

Rei Yamamoto

Mitsubishi UFJ Trust Investment Technology Institute

yamamoto@mtec-institute.co.jp

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Abstract

This paper investigates the monthly excess comovement of two groups that are classified according to whether two stocks belong to the same TSE 33 sectors from May 1985 to March 2013. We define excess comovement as a correlation between two stocks beyond what would be justified by the Fama–French three factors. We find that the adjusted R^2 of the same sector group for multiple regression of excess comovement on nine variables, including attention measures, short-term interest rate, market liquidity, and market-wide uncertainty and information heterogeneity, is more than 44%. Our results support the hypothesis that information processing capability of limited investor's generates excess comovement among stock returns in the same sectors.

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Keywords: daily individual stock return; monthly correlation; limited attention

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† Corresponding author.