Abstract

Understanding what drives stock returns is an essential question for investors, financial institutions, and economists. The question is important not only for individuals, but also for the overall economy, as forms of inefficiency such as bubbles can lead to stock market crashes that have a negative impact on the real economy itself. In contrast to the Efficient Markets Hypothesis, which posits that the stock market is efficient at correctly pricing stocks, the accrual anomaly is an example of one of the largest inefficiencies in the equity market. The aim of this thesis is to examine if the accrual anomaly has lessened in recent history. We analyze if the increasing trend of institutional funds trading on accrual mispricing, the increasing presence of cash flow forecasts, or earnings quality could be responsible for mitigating the accrual anomaly effect. A robust MM regression is used to assess the anomaly alleviation. The analysis focuses on the US stock market. We confirm the mitigation of accrual mispricing based on the increase in trading on the accrual anomaly and quality of earnings for the period from 1991 to 2015, but not the growing number of cash flow forecasts.