

High-Volume Return Premium on The Warsaw Stock Exchange

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Abstract

While majority of the finance literature focuses on stock price behavior over time, this study shifts attention to the role of trading volume in predicting stock returns. This paper investigates the presence of the High-Volume Return Premium (HVRP) effect on the Warsaw Stock Exchange (WSE), which is a great example of an emerging market. We test whether unusually high trading activity measured by relative turnover is followed by an increase in short-term returns. To achieve this, various investment strategies based on HVRP effect are evaluated, including both equally weighted and capitalization-weighted portfolios. Additionally, numerous parameters are taken into consideration - such as company size or stock price level. The findings contribute to the broader discussion of market efficiency and provide valuable insights into behavioral finance, particularly herd behavior during periods of heightened market attention. Furthermore, the results lend support to the investor recognition hypothesis, which suggests that increased trading volume can boost demand and drive short-term price momentum. These behavioral dynamics offer a complementary explanation for the HVRP effect, enriching our understanding of investor behavior in emerging markets like the WSE. Additionally, we believe that this article can be very useful while building a successful investment strategy.

Keywords: emerging markets, investor recognition hypothesis, portfolio, relative turnover, trading strategies