

# Abstract

This paper tests the overreaction hypothesis in the Norwegian equities market using monthly stock data over the period 1986 – 2003. Unlike most other studies, no performance reversal is found in loser or winner portfolios and the returns to the arbitrage portfolio are negative. The results further show that differences in risk, as measured by CAPM betas using the Chan (1988) method, can not explain any overreaction effects when three year rank and test periods are employed. However, some return reversal occurs when rank and test periods are expanded to five years and risk is adjusted accordingly. The construction of size portfolios reveal that small firms make up most of the loser portfolio and large firms comprise most of the winner portfolio as suggested by Zarowin (1990). Possible explanations for the continuation behaviour may be differences between national markets or different time periods considered.