

CCAPM, Wealth Shock, and Stock Market Anomalies

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Abstract

Capturing all non-financial wealth risks, we investigate how the expected and unexpected disposal non-financial wealth changes named wealth shock create a demand shock that is the extra of normal demand without it. These shocks affect the prices and expected returns of risky assets in equilibrium and demand a wealth risk premium. These wealth risks provide a consumption-based theoretical and economical understanding for the pricing of value, size, momentum, liquidity risk, and the unexpected market illiquidity, the new issue puzzle, the negative predictability of aggregated new issues, and Equity Premium Puzzle in the stock markets. We present a simple testable model in which our wealth risk proxy explains a good portion of the equity excess return and the Fama-French 25 size and book-to-market portfolios excess returns. There is an equilibrium price for each risky asset even though there are heterogeneous wealth risks across the economy.

JEL Classification Code: G11, G12, G15

Keywords: Consumption-based, wealth risk, demand shock, liquidity shock, risk premium, size, value, growth, momentum, dynamic equilibrium

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