

# Forecasting Stock Price Changes: Is it Possible?<sup>1</sup>

Pedro N. Rodriguez<sup>2</sup> and Simon Sosvilla-Rivero<sup>3</sup>

First Draft: February 1, 2006

This Draft: May 7, 2006

## Abstract

We examine the relation between monthly stock returns and lagged publicly available information. Our primary objective is to determine whether the variables proposed in the literature to predict the equity premium contain incremental information to an investor. We find that certain variables do provide incremental information and may have some practical value. Although this not necessarily imply that return-forecasting models may be used to predict future stock returns, some model specifications may be used to predict future stock movements.

JEL Classification: G12, G14.

Keywords: Stock return predictability, stock movement predictability.

---

<sup>1</sup> Pedro N. Rodriguez thanks CONACYT (Mexico) for financial support (Fellowship: 170328).

<sup>2</sup> Universidad Complutense de Madrid (UCM), Facultad de Ciencias Económicas y Empresariales, Departamento de Estadística e Investigación Operativa II, Campus de Somosaguas, 28223 - POZUELO DE ALARCÓN (MADRID), Spain, phone: +34 696 58 40 04, e-mail: pedro\_nahum@ucm.universia.es.

<sup>3</sup> UCM and Fundación de Estudios de Economía Aplicada (FEDEA), C/ Jorge Juan, 46, 28001 – Madrid, Spain, phone: +34 914359020, e-mail: simon.sosvilla@fedea.es (corresponding author).