

## ABSTRACT FORM

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| Paper title         | Conditional Cross-Section: Belief Difference and Characteristic Explanations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
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| Abstract            | <p>We study the cross-sectional stock return variation when returns are conditioned on investors' belief difference and book-to-market ratio. In the conditional cross-section, returns decrease from low to high belief difference for all book-to-market ratios, and increase from low to high book-to-market ratio for all belief differences. Conventional risk-based model struggles to explain the given conditional return variation. We offer plausible economic explanations based on characteristics that are related to investors' belief differences and market frictions. While the short-sale constraints and the max-return can help explain the decrease in returns across belief difference, cash flow risk can help explain the value premium across book-to-market ratios. Our study calls for a new theoretical framework that can account for investors' belief differences in explaining the cross-sectional return variation.</p> |