ELSEVIER Journal of Financial Economics 38 (1995) 269–296

JOURNAL OF Financial ECONOMICS

Evaluating the performance of value versus glamour stocks
The impact of selection bias

Louis K.C. Chan*, Narasimhan Jegadeesh, Josef Lakonishok

University of Illinois at Urbana-Champaign, Champaign, IL 61820, USA

(Received July 1994; final version received December 1994)

Abstract

We examine whether sample selection bias explains the difference in returns between 'value' stocks (high book-to-market ratios) and 'glamour' stocks (low book-to-market ratios). Selection bias on Compustat is not a severe problem: for CRSP primary domestic firms, the proportion missing from Compustat is not large and the average return is not very different from the Compustat sample. Mechanical problems with matching Cusip identifiers account for much of the discrepancy between CRSP and Compustat. The superior performance of value stocks is confirmed for the top quintile of NYSE–Amex stocks, using a sample free from selection bias.

Key words: Selection bias; Anomalies; Book-to-market ratio; Matching CRSP and Compustat

JEL classification: G12; G14; M41

1. Introduction

Recent research shows that stock-specific fundamental attributes that incorporate accounting data can predict the cross-section of stock returns. An

*Corresponding author.

We have benefited from the comments of Kenneth French (the referee), David Ikenberry, Jay Ritter, Bill Schwert (the editor), Paul Seguin, and seminar participants at the 1994 NBER Behavioral Finance/Asset Pricing Summer Institute, the Third Mitsui Life Symposium on Global Financial Markets and the University of Illinois. We thank Brent Appleby and Doug Malcolm for clarifying Compustat procedures, and Han Qu for excellent research assistance. Computing support was provided by the National Center for Supercomputing Applications, University of Illinois at Urbana-Champaign.

0304-405X/95/$09.50
SSDI 0304405X9400818 L