The Investor Recognition Hypothesis: The New Zealand Penny Stocks

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(2010) *Applied Financial Economics* 20, 891-898

Summary

This study explores the Investor Recognition Hypothesis (IRH) in the New Zealand Stock Market and builds on findings from Kaniel et al. (2005) that illustrate a significant high-volume return premium (HVRP) in the overall New Zealand market. It undertakes a more vigorous analysis of the HVRP phenomenon based on size by classifying sample firms into two groups, penny stock and non-penny stock. This paper shows that HVRP phenomenon is driven by penny stocks only and provides support for the IRH as penny stocks are less liquid and more neglected thus responding more strongly to high-volume shocks.

Key Findings

- HVRP is never significant for non-penny stocks
- HVRP is significantly positive for penny stocks in most of the testing period horizons
- High-volume shocks induce penny stocks to generate large net returns
- Penny stocks are less liquid than non-penny stocks, indicating that penny stocks are less visible to investors
- IRH applies only to penny stocks in the New Zealand stock market

Practical Application

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This paper adds to the current literature on the New Zealand stock markets HVRP. It warrants consideration by investors seeking greater returns and provides support for the investor recognition hypothesis.