

Corrigendum to “Simple tests for stock return predictability with good size and power properties” [Journal of Econometrics, 2021, 224, 198-214]

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In the empirical application of the paper (section 5), the program used to generate the results contained an error related to the construction of the dependent variable, which has a small impact on the results. The corrected version of Table 2 on p.213 of the published paper is given below. For clarity, the dependent variable is calculated as the log return on the CRSP index (including dividends) minus the log return on the (lagged) risk-free rate. The inferences from the different tests remain essentially the same for all predictors, with the exception of the dividend yield, where none of the tests now give a rejection. We are grateful to Sam Astill for bringing this issue to our attention. Note that the Monte Carlo simulation results in the published paper are correct, with the error being particular to the empirical application only.

**Table 2**

Application to monthly U.S. S&P 500 returns, 1980:1–2017:12

Predictor	$\hat{\rho}_{xy}$	$ADF_{\pi}$	$\mathcal{T}_{hyb} =$	$\mathcal{T}_{hyb}$	$BD$	$IVX_1$	$IVX_2$	$Q$	$EMW$
Dividend payout ratio	-0.07	-39.84	$\mathcal{T}_{con}$	0.22	0.69	0.08	0.01		
Earnings-price ratio	-0.58	-16.22	$\mathcal{T}'_{con}$	0.42	0.14	1.11	1.22		
Dividend-price ratio	-0.99	-3.92	$\mathcal{T}'_{con}$	0.61	0.09	0.85	0.72		
Dividend yield	-0.05	-4.15	$\mathcal{T}_{con}$	1.26	0.00	0.97	0.95		
Default yield spread	-0.14	-23.81	$\mathcal{T}'_{con}$	-0.30	0.73	-0.48	0.23		
Long-term yield	-0.12	-2.92	$\mathcal{T}'_{con}$	-0.54	0.25	-1.20	1.44		
Default return spread	0.25	-280.05	$\mathcal{T}_N$	2.18**	2.54	2.17**	4.70**	**	**
Stock variance	-0.39	-126.52	$\mathcal{T}_N$	-3.22***	12.42***	-3.28***	10.77***	**	**
Net equity expansion	0.04	-17.51	$\mathcal{T}_{con}$	-0.06	1.27	0.06	0.00		
Inflation rate	-0.01	-44.76	$\mathcal{T}_{con}$	-0.83	0.80	-0.60	0.36		
Treasury bill rate	-0.01	-7.87	$\mathcal{T}_{con}$	-1.14	0.44	-1.41	1.99		
Term spread	-0.02	-28.33	$\mathcal{T}_{con}$	0.99	0.07	0.69	0.47		
Book-to-market value ratio	-0.66	-5.70	$\mathcal{T}'_{con}$	0.13	0.51	0.31	0.10		

Notes:

The column labelled “ $\mathcal{T}_{hyb} =$ ” states which of the constituent tests is selected in the hybrid test  $\mathcal{T}_{hyb}$ .

\* denotes rejection at the 0.10-level.

\*\* denotes rejection at the 0.05-level.

\*\*\* denotes rejection at the 0.01-level.