Expected Volatility, Unexpected Volatility, and The Cross-Section of Stock Returns: Evidence from Thailand

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ABSTRACT

The existing literatures show conflicting result in cross-sectional relationship between expected stock returns and idiosyncratic volatility. We contend that the conflict of results come from variables that the authors use. We decompose the idiosyncratic volatility into two components which are expected idiosyncratic volatility and unexpected idiosyncratic volatility. We use unexpected idiosyncratic volatility as control variable to control for unexpected stock returns. We find positive significant relationship between unexpected idiosyncratic volatility and expected stock returns. This result still holds after we decompose stock returns into expected stock returns and unexpected stock returns. Then find the relationship between unexpected idiosyncratic volatility and expected stock returns directly.