The Accruals Anomaly in Australia: A Closer Look at Trading Strategy Returns

Abstract:

This paper closely investigates the accruals anomaly in Australia using the trading strategy research design. The trading strategy results are subjected to a series of structured robustness tests: (i) three different proxies are used for total accruals; (ii) abnormal returns are defined adjusted for size, market and the Fama-French three factor model; and (iii) outlier data trimming is progressively applied. While no evidence of the accruals anomaly is found, this paper finds results that can be reconciled with the existing but inconsistent evidence of the accruals anomaly in Australia with matching research designs, demonstrating the sensitivity of the results to research design specification. In particular, with progressive outlier data trimming, the evidence of abnormal returns in the extreme decile portfolios disappears. This highlights the need for caution in drawing inferences from specific research design specifications in trading strategy tests of the accruals anomaly.