

Equity Liquidity Premium in Brazil

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Preliminary
Comments are welcome!

Abstract

In this article, we have investigate several aspects of the stock market liquidity in Brazil. This market is one of largest among emerging market countries with a well developed stock market, although with low liquidity and recent integration with global markets. The investigation is done on individual stocks and the market as a whole. The liquidity tests evaluate three well know results: the illiquidity premium significance and dynamic on a four factor model; the ability to forecast returns; and its economic significance. Seven different liquidity measures were used. On the aggregate stock market liquidity, it is evaluated the time varying liquidity risk premium and the flight to quality phenomenon. In general the results are similar to what is find in developed markets.

JEL Classification: G12, G15.

Keywords: Liquidity effect; Liquidity and asset pricing; Liquidity premium, Emerging markets, Flight to liquidity; Frictions; Transaction costs.