



Working Paper

Biases in Long-Horizon Predictive Regressions

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Analogous to Stambaugh (1999), this paper derives the small sample bias of estimators in J horizon predictive regressions, providing a plug-in adjustment for these estimators. A number of surprising results emerge, including a higher bias for overlapping than nonoverlapping regressions despite the greater number of observations and particularly higher bias for an alternative long-horizon predictive regression commonly advocated for in the literature. For large J , the bias is linear in $\frac{1}{J}$ with a slope that depends on the predictive variable's persistence. The bias substantially reduces the existing magnitude of long-horizon estimates of predictability.

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