

# **What is the Real Relationship between Cash Holdings and Stock Returns?**

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## **Summary**

The literature has provided mixed evidence on the relationship between cash holdings and average stock returns. We empirically verify that the relationship is positive and robust to the adjustment of risk, the construction of cash holdings portfolios, and the weighting scheme of portfolio returns. We further examine a battery of potential channels that can explain the positive relationship. We find that the cash holding effect can be subsumed by accruals-related anomalies and it mainly comes from stocks with low net operating assets. It is stronger among stocks with high limits to arbitrage. Overall, our results indicate that the cash holding effect does not present a new asset-pricing regularity, but that it is a manifestation of existing anomalies closely related to mispricing.