

Response to Reviewers

Compliance to Reviewer #2

Reviewer's comment:

1. The authors argue in the Introduction that the decomposition is important as there is heterogeneity among traders. Monthly average stock prices can hardly, if at all, captures such heterogeneity in stock trading.

Response: Dear reviewer we thank and appreciate this point. Although monthly data cannot capture the very high frequency traders, yet it is possible to capture the behavior of medium to long term investors. For intraday or daily data we could have captured the short term behavior, however things could have become really difficult as it needs more than 15 decompositions. So when we talk about different frequency traders we specifically mean the medium and long term investors.

2. At no point, the authors discuss the benefits of frequency decomposition over time series decomposition and we do not know what the advantages of this particular technique are when analyzing stock prices.

Response: We really appreciate this point. This is now added in the introduction part.

3. When discussing the results, the authors claim that the stock prices are determined by the long-term growth of the US [economy]. There is no justification of such a claim when the analysis is only univariate.

Response: In order to clarify this point a section was introduced in the introduction part. It goes like this

“.....According to “Supply side” models equity returns have their roots in the productivity of underlying real economy. The GDP growth of the underlying economy flows to shareholders in the number of steps. First, it induces corporate growth followed by the earning per share growth and stock price increase. GDP growth and stock price increase being a lengthy process, one can safely assume that the long term trend or the low frequency components of the stock prices represent the underlying real growth of the economy”

The point is long term real growth is captured by the long term trend of the stock prices based on the supply side models.

We are thankful to the anonymous referee for highlighting the critical issues without which this paper would have been flawed.

Thanks.....