

Essays on Temporal and Cross-sectional Variation in the Expected Return of Risky Securities, and Tests of Portfolio Efficiency, University of California, Los Angeles, 1996, 1996, Mark Britten-Jones

Portfolio Risk – Diversification and Correlation Coefficients. Portfolio risks can be calculated, like calculating the risk of single investments, by taking the standard deviation of the variance of actual returns of the portfolio over time. This variability of returns is commensurate with the portfolio's risk, and this risk can be quantified by calculating the standard deviation of this variability. Risk is typically represented by the standard deviation of the expected returns of an asset, equal to the square root of its variance: Standard Deviation = $\sqrt{\sigma^2}$. The Pauper's Money Book shows how you can manage your money to greatly increase your standard of living. Save, invest, and earn more money. Get out of debt. This paper analyzes the risk-return trade-off in European equities considering both temporal and cross-sectional dimensions. In our analysis, we introduce not only the market portfolio but also 15 industry portfolios comprising the entire market. Several bivariate GARCH models are estimated to obtain the covariance matrix between excess market returns and the industrial portfolios and the existence of a risk-return trade-off is analyzed through a cross-sectional approach using the information in all portfolios. It is obtained evidence for a positive and significant risk-return trade-off in the European market. The relationship between risk and expected return in Europe Measuring and modeling variation in the risk return trade-off. Working paper. 495-512. then discuss the cross-sectional and temporal determinants of the ERCs which provide the basis for our empirical investigation. Finally, we compare the determinants of the ERCs identified in this study with those in the related literature. 2.1. Equity valuation and the earnings response coefficient. (2), the future expected rates of returns are assumed known and the only uncertainty about future prices is due to reassessments through time of expected future dividends. These assumptions, together with the other assumptions underlying the Sharpe-Lintner Capital Asset Pricing Model (CAPM), are sufficient for the multiperiod CAPM to hold [Fama (1977)]. It is a cross-sectional relationship between mean excess returns and exposures to the market factor [Connor and Sehgal (2001)]. Explaining Common Variation in Returns with the Factor Portfolios. In this research we use the standard multivariate regression framework [Campbell et. al. (1997)] to test the Fama-French model in the context of Israel's Stock Exchange. Here represent the excess returns to the portfolio j in month t , represent the excess returns to the market portfolio, represent the returns to the size portfolio, and represent the returns to the value portfolio. are the market, size, and value factor exposures of portfolio j , is the abnormal mean return of portfolio j , which equals zero under the hypothesized pricing model, and is the.