MECON6102 Problem Set 2

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Abstract

This report studies the relationship between monthly stock returns and a set of factors and construct an investment strategy based on various factor models. The report first uses a naive factor regression to estimate the factor loadings of the stock returns. Then, the report uses the Fama-MacBeth regression to estimate the factor risk premia. Finally, the report uses the LASSO regression to select the factors. The report also constructs a mean-variance portfolio based on the factor risk premia.

1 Data

2 Conclusion

Bibliography