The Capital Asset Pricing Model (CAPM) provides a framework for evaluating the risk and return relationship. This analysis examines Disney and General Electric (GE) to determine their suitability for investment based on key CAPM parameters and diagnostic tests. Disney's intercept (α=0.6454, p=0.020) is statistically significant, suggesting positive excess returns independent of market movements, while GE's intercept (α=0.0594\alpha = 0.0594, p=0.837p = 0.837) is not significant, indicating its returns align with the market. Both stocks have beta values more significant than one—Disney (β=1.1368, p < 0.001) and GE (β=1.1506, p<0.001p)—demonstrating heightened sensitivity to market changes, with returns amplifying market fluctuations. The joint hypothesis tests reject CAPM expectations for both stocks (p<0.001), highlighting deviations from theoretical assumptions.

The diagnostic tests provide insights into model reliability. For Disney, there is no evidence of heteroskedasticity (p=0.695) or autocorrelation (DW=2.13), but the Jarque-Bera test (p<0.001) reveals non-normal residuals, potentially due to outliers or non-linear effects. GE's model faces greater challenges, with significant heteroskedasticity (p=0.021) and positive autocorrelation (DW=1.773), alongside non-normal residuals (p<0.001). These diagnostic issues suggest the need for adjustments such as robust standard errors or time-series modelling to improve inference reliability.

In conclusion, Disney appears to be a more attractive investment, with evidence of stock-specific excess returns and moderate market sensitivity. While aligning closely with market performance, GE exhibits volatility and diagnostic issues that reduce model reliability. Both models underscore the importance of validating CAPM assumptions to ensure robust investment decisions. When deciding between these two assets, investors should consider these factors, along with their risk tolerance and return expectations.