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| The Cross-Section of Expected Stock Returns |
| Executive Summary |

* Research objective

The goal is to evaluate the joint roles of market beta (β), size (ME), Earnings-Price Ration (E/P), leverage (A/ME and B/ME), and book-to-market equity (BE/ME) in the cross-section of average returns on NYSE, AMEX and NASDAQ stocks.

* Data and Methodology

The study used monthly data for all nonfinancial firms from 1962 to 1990 in the intersection of the NYSE, AMEX, and NASDAQ return and the merged COMPUSTAT annual industrial files of income statement and balance-sheet data, also maintained by CRSP. Financials have been excluded because their leverage is too high compared to nonfinancial stocks. The approaches used to find information on factors explaining average return are mainly two:

1. **Double Sorting** that is based on company features and has the scope to solve the issue derived by the strong correlation between β and the size of a firm.
2. **Fama and Macbeth** (FM) regression as well as a Cross-Sectional regression that relates average returns with past company features as factors and uses beta’s portfolio instead of individual stock beta’s as they tend to be more accurate.

* Results

Double Sorted portfolio deciles show a negative relation between size and return. In addition, probably there is no effect of β on returns.

Double Sorted portfolios on ME and BE/ME shows a positive relation between Book to Market and portfolio returns.

The FM regression shows that: 1) Both ME and BE/ME have a significant impact on the average returns, negatively and positively respectively. 2) Market β seems to have no role in explaining the average returns. 3) Book to Market Equity Capture the leverage effect. 4) ME and BE/ME capture absorb the relation between E/P and average returns.