The Hong Kong University of Science and Technology

Seminar on Business Data Science
Department of ISOM

Tradable Factor Risk Premia and Oracle Tests of Asset Pricing Models

By

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Time: 2:00pm – 3:00pm
Venue: Room 4047 (LSK Business Building)

Abstract

Tradable factor risk premia are defined by the negative factor co-variance with the Stochastic Discount Factor projection on returns. They are robust to a misspecification or a weak identification of an asset pricing model, and they are zero for any factor weakly correlated with returns. We propose a simple Oracle estimator of tradable factor risk premia, which consistently removes factors weakly correlated with returns and gives rise to reliable tests of asset pricing models. We study empirically a broad family of factor asset pricing models from the factor zoo and detect a corresponding subset of well-identified low-dimensional models, in which the most frequently selected factors are market, size, intermediaries capital ratio, market with a hedged unpriced component, a long-term behavioral factor and a mispricing factor.

All interested are welcome!

For details, please contact ISOM Department.