
> Thursday, June 1st, 2023
14:00 - 15:30

FINANCE RESEARCH SEMINAR

IÉSEG SCHOOL OF MANAGEMENT

EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY

## ABSTRACT

## 'MULTI-FACETS OF BETA'

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We revisit the relationship between betas and cross-sectional asset returns by investigating asymmetric responses of stock returns to the market portfolio return. We demonstrate that post-formation portfolios, commonly used in asset pricing tests to avoid accepting false hypotheses, tend to reject the null hypotheses far more than expected. Using contemporaneous betas and returns in the asymmetric response model, we find that up and down betas, together with bid-ask spread or idiosyncratic volatility, explain cross-sectional asset returns, with coefficients on up betas far exceeding those on down betas. Various firm characteristics explain the difference between up and down betas. In particular, large capitalization, value, past winners, and profitable stocks respond to the market much more than other stocks when market returns are positive.

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