DOES IT RING A BELL? CAPITAL ASSET PRICING MODEL VERSUS FAMA AND FRENCH MODEL

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ABSTRACT

This study is endeavour to put the battle between CAPM and FF Model to an end by giving more evidences showing which model is superior incorporating with risk and other variables in explaining the expected returns. We aim to achieve three main objective which are (1) to examine the relationship between CAPM and Expected Return, (2) to identify whether FF Model is related to Expected Return and (3) To compare whether CAPM is superior to FF Model. In order to achieve these objectives, we employ linear regression to ascertain the relationship between the variables and apply RMSE and MAE comparison to identify which model is better. We collected the data of 50 companies from five different industries in Kuala Lumpur Stock Exchange (KLSE). The data is based on monthly basis from the period of January 2000 until December 2013. In general, we found that, FF model is performing better compare to CAPM in linear regression. Another finding is we identify that FF model consistently superior to CAPM in error comparison analysis.

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