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Stable Factors in Security Returns: Identification Using Cross-Validation

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Abstract

Recent papers in financial research focus on identifying a stable factor structure for security returns. The likelihood ratio test typically is used to determine the number of factors from exploratory factor analysis models. In this article, we consider the use of cross-validation to identify a stable factor structure in security returns. When applied to actual stock-return data, cross-validation identifies a smaller number of stable factors than the ... es, cross-validatic ... dentifies from fou ... t industry or size ... . Even if there ... difficult to disentar ...

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