Abstract

In this paper we sho ucted from 'off the shelf' style inde cus of the tests is to assess the overri ework. In addition, we augme of the three FF risk factors, thereby permitting a direct estimate of the associated risk premia. The key findings are as follows. First, the proxy mimicking portfolios do represent pervasive sources of exposure across a sample of industry-sorted portfolios. Second, based on the outcome of all the GMM tests performed on our sample, the evidence seems to quite strongly support the three-factor Fama and French model. Third, when we take into account the estimated risk premia produced by our framework, the conclusion favouring the model has to be downweighted somewhat. Nevertheless, the estimated risk premia for the market and for the book-to-market factor are typically found to be significantly positive. Our main 'perverse' finding relates to the size risk premium which in our sample is typically significantly negative. This is consistent with other recent evidence of a 'reversal' in the size effect.

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