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September 11 and time-varying beta of United States companies

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Abstra

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The author thanks the seminar participants at the European Financial Management Association Conference 2003 in Helsinki for several helpful comments and suggestions.

Notes

[1] A detailed discussion of these factors is provided by Rosenberg and Guy (1976a, 1976b).

[2] Rosenberg and Ohlson (1976), Fabozzi and Francis (1978), and Bos and Newbold (1984) provide evidence that security betas are not only time-varying but can also be better described by some form of stochastic model. According to Lin et al. (1992) the stochastic structure of the beta has important implications for the measures of capital asset pricing and performance, efficient market hypothesis and in forecasting the stock returns.

[3] See Markowitz (1952), Sharpe (1964) and Lintner (1965) for details of the CAPM.

[4] According to Klemkosky and Martin (1975) betas will be time-varying if excess returns are characterized by conditional heteroscedasticity.

[5] Hanse rmation, as is done i s conclusi o.

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[10] Boller g (1991), Bodurtha and Mark (1991), Koutmos et al. (1994) and Giannopoulos (1995) apply some

form of the ARCH and the GARCH models to estimate time-varying betas for different stock markets.

[11] In a GARCH(p, q) model different combinations of p and q may be applied but as indicated by Bollerslev et al. (1992, p. 10) $p = q = 1$ is sufficient for most financial and economic series. Bollerslev (1988) provides a method of selecting the size of p and q in a GARCH model. Tests in this paper were also conducted with different combinations is p and q with $p = q = 2$ being the maximum lag length. Results based on log-likelihood function and likelihood ratio test indicate that the best combination is $p = q = 1$. These results are available on request.

[12] All the GARCH models were estimated by means of the Berndt et al. (1974) algorithm.

[13] The significant MA term may also be due to different news observed by different investors or the same news being interpreted differently by investors. This could create a negative serial correlation, as a result of a process of price adjustment where the price bounces back and forth between centres with different information.

[14] Before the estimation of Equation 7 the stochastic structures of all variables were investigated to check for unit root(s). All variables were found to be stationery in levels by mean ot provided due to th evels implies that vari

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Source: The Journal of Business

Portfolio Selection

Source: The Journal of Finance

The Valuation of Risk Assets and the Selection of Risky Investments in Stock Portfolios and Capital Budgets

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The Stationary Distribution of Returns and Portfolio Separation in Capital Markets: A Fundamental Contradiction

Source: Journal of Financial and Quantitative Analysis

Prediction of Beta from Investment Fundamentals: Part One

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Beta as a Random Coefficient

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