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Feasibility of the Fama and French three factor model in explaining returns on the JSE

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ABSTRACT

We test the feasibility of the Fama and French (1993) three factor model on the JSE Limited (JSE) to explain the size and value effects. In time-series tests on grouped data, we show that both the models can capture a substantial amount of time-series variation in most assets, and yield small pricing errors. In tests on ungrouped data, the three factor model can explain the value effect, and goes in the right direction to explain the size effect. Given these results, we propose that our three factor model could be used in expected return estimation for firms listed on the JSE.

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