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## Asymmetric beta in bull and bear market conditions: evidences from India

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## **Abstract**

The significant role played by beta in various aspects of financial decision-making has forced people from small investors to investment bankers to rethink on beta in the era of globalization with ever changing market conditions. Standing on the edge of a free capital mobile world with technological innovations happening in no time, it is imperative to understand the stability of beta in accordance to these changes and also

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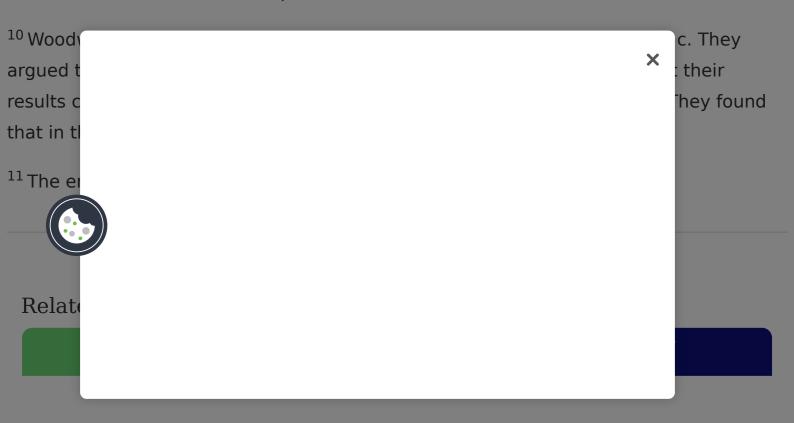
Notes

<sup>1</sup> Studies

instruments like mutual funds, portfolios, industries etc. See woodward and Anderson

(2003) for a brief literature on this.

- <sup>2</sup> Most of the studies classified the market conditions into two as bull and bear markets and also constructed various methods to identify it.
- <sup>3</sup> In its simplest form to test the differential effect of beta for two different market conditions is to use a dummy variable model. A dummy is assigned for Bull (Bear) market condition, if the market return is greater (lower) than a threshold value. A significant coefficient reflects the existence of Dual beta.
- <sup>4</sup> Most of studies assigned dummy with bear market condition as base; the rejection indicates there is no downside beta.
- <sup>5</sup> See Jagannathan and Wang (<u>1996</u>) for a brief literature on conditional CAPM. For a criticism on conditional CAPM refer Lewellen and Nagel (<u>2003</u>).
- <sup>6</sup> Stocks transacted daily are considered highly liquid.
- <sup>7</sup> Recently more studies focus on trend based method as it takes care of the short-term noises. See Pagan and Sossounov (2003) for a sophisticated trend based definitions.
- <sup>8</sup> The definition is based on the identification of peak and trough period that has been done manually.
- <sup>9</sup> The second and third definitions are given by Fabozzi and Francis (<u>1977</u>) and the trend-based definition was adopted from Edwards et al. (<u>2003</u>) with small modification.



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