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# The Three Types of Factor Models: A Comparison of Their Explanatory Power

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## Abstract

Multifactor models of security market returns can be divided into three types:

macroeconomic factors, such as interest rates, as measured by the return on a portfolio of U.S. equity. Multifactor models use the return on a portfolio of U.S. equity as a dividend proxy. Multifactor models derive their explanatory power from the return on a portfolio of U.S. equity.

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