Title: **ASSESSING ASSET PRICING MODELS USING REVEALED PREFERENCES**
Speaker: **Jonathan Berk, Stanford University**

Importance: Why this matters:

This paper demonstrated that investors seem to use the CAPM when evaluating mutual fund manager performance, and by implication, they behave as if risk matters, and the CAPM is the proper asset pricing model. Importantly, adding the Fama-French factors to the CAPM did not increase the explanatory power of the model, suggesting that the FF factors are not priced risk factors.

Investigation: "Speaker analyzed XXX data to address the questions yyy, zzz, etc."

Berk looked at the relationship between mutual fund flows and alphas calculated as returns in excess of various asset pricing models to see which had the strongest relationship. The hypothesis is that fund alphas provide investors with new information that the manager has skill. In which case, positive alphas should result in flows into the fund, and negative alphas should result in withdrawals. From that perspective, the asset pricing model that is most similar to the one used by investors should produce alphas that most highly correlate with unexpected fund flows.

Innovation: Are there new techniques of interest in the data or approach to the problem?

Berk used unexpected fund flows as a technique to understand the asset pricing model used by investors. Hence the term "Revealed Preference". In addition, rather than using a narrow set of country, regional and style funds to model the behavior of each mutual fund, he mapped each fund onto the full set of Vanguard index funds.

Insights: 1-2-3, what are the three most important things the speaker offered?

1. A model that better explains the cross section of stock market returns is not necessarily a better asset pricing model. The model may be over fitted.
2. He investigated the CAPM, CAPM plus the Fama-French Factors, and models that do not include risk adjustments. The finding was that the CAPM using the CRSP index as the market portfolio produced alphas whose signs were most highly correlated with the direction of unexpected fund flows. The differences between it and the other asset pricing models were highly statistically significantly significant. Importantly, the CAPM produced better results than the CAPM plus the Fama-French factors.
3. As part of his introduction of the topic, Berk described his work with van Binsbergen. The showed that fund managers did add value (the total dollar alpha before fees generated by mutual managers was positive), and the relative skill was highly predictable.

Audience rating: 3.62