

Title: **CROSS-SECTIONAL ASSET PRICING WITH INDIVIDUAL STOCKS:
BETAS VERSUS CHARACTERISTICS**

Speaker: **Tarun Chordia, Emory University**

Importance: Why this matters:

Much quantitative work on equities is done through variants on the Fama/French analytic formulation of risk factors. Chordia and his co-authors investigate whether the cross-sectional of stock market returns are better explained by betas relative to the FF factors (which purport to measure priced risks) or by direct use of company characteristics.

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

Chordia analyzed monthly data on 5000 stock price series and corporate data from 1963 through 2013 to determine which is more highly correlated with realized returns: mult-factor betas versus the Fama-French factors or company characteristics.

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

Previous works have shown that beta calculations are less efficient and induce measurement error. Other authors have used aggregated characteristics to try to correct this shortcoming. Chordia, in contrast, directly uses individual company data.

By incorporating both betas and stock characteristics into the analysis, Chordia can calculate the percentage of variance explained by characteristics vs. factor betas.

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

1. The results show that characteristics strongly outperform betas versus the FF factors in explaining cross-sectional stock market returns.
2. Chordia recommends that analysts forget about factor betas and apply a methodology based on company characteristics.
3. From an implementation standpoint, Chordia's method would construct portfolios directly from company data; for example, simply buy small stocks. The alternative, beta-centric method would be to purchase stocks that have historically behaved like small stocks. Chordia would choose the former.

Audience rating: **3.02**