Discussion Paper

Multifactor Models and their Consistency with the ICAPM - Evidence from the European Stock Market

by

Fabian Lutzenberger

appears in: European Financial Management, 2015
Multifactor Models and Their Consistency with the ICAPM – Evidence from the European Stock Market

Fabian T. Lutzenberger*

Abstract:
This paper conducts a European investigation of eight multifactor models that have been previously tested using US data. Many results confirm the US evidence: Most of the eight multifactor models investigated do a good job explaining the cross-section of our testing portfolios, but most models are not justifiable by the Intertemporal CAPM (ICAPM). Carhart’s four-factor model shows the best empirical performance and consistency with the ICAPM. Nevertheless, some results counter the US evidence: Fama and French’s three-factor model is inconsistent with the ICAPM and the models of Hahn and Lee (2006) and Koijen et al. (2010) show low explanatory power.

JEL classification: G12

Keywords: asset pricing; Europe; ICAPM; multifactor models; risk factors

* University of Augsburg, Research Center Finance & Information Management and Institute of Materials Resource Management, 86135 Augsburg, Germany; fabian.lutzenberger@fim-rc.de; tel. +49 821 598-4884 or +49 821 598-4801 (secretary); fax +49 821 598-4899. I extend my sincere appreciation to an anonymous referee, John A. Doukas (the editor), Andreas W. Rathgeber, Stefan Stöckl, and Martin Wallmeier for their helpful comments. The Internet Appendix to this paper is available at http://fabian-lutzenberger.de/EFM_appendix.pdf.