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

by

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# 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

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