CAPM Over the Long-Run: 1926-2001

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Abstract

Over the long-run from 1926 to 2001, the CAPM can account for the spread in the returns of portfolios sorted by book-to-market ratios. In contrast, using data covering the period after 1963, many studies find strong evidence of a book-to-market effect using conventional asymptotic standard errors. To conduct correct small sample inference, we estimate a conditional CAPM with time-varying betas and find that post-1963 book-to-market effect is statistically insignificant. We find some evidence of a book-to-market effect among medium-sized stocks, but not among the smallest stocks. We also find that while the momentum effect is robust to small sample biases, the reversal effect is not.