

Is Value Riskier Than Growth?

Ralitsa Petkova and Lu Zhang*

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Abstract

Yes! We study the time-varying risk patterns of value and growth stocks across business cycles. We find that the conditional market betas of value stocks covary positively with the expected market risk premium, and that value stocks are riskier than growth stocks in bad times when the expected market risk premium is high. The opposite is true for growth stocks. Methodologically, we measure time-varying risk by sorting conditional betas on the theoretically justified *expected* market risk premium, instead of the *ex post* realized market excess return. Our findings lend support to the predictions of recent rational asset pricing theory.

*William E. Simon Graduate School of Business Administration, University of Rochester, Rochester, NY 14627. We have received helpful comments from Andrew Ang, Mike Barclay, Greg Bauer, Wayne Ferson, Rick Green, Ludger Hentschel, John Long, Cliff Smith, Stan Zin, and seminar participants at Carnegie and Rochester. All remaining errors are our own. E-mail: petkovara@simon.rochester.edu and zhanglu@simon.rochester.edu.