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by

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## Abstract

We propose a parsimonious, comprehensive proxy for innovations in limited arbitrage: innovations in ETFs' premium. Consistent with a common component, we confirm limited arbitrage factors, LAFs, constructed from ETFs' premium innovations spanning four asset classes are correlated. Further, we find that equity LAFs are negatively priced in the cross-section of stock returns. Our pricing tests also confirm that LAFs provide pricing information beyond well-known limits of arbitrage: illiquidity and idiosyncratic volatility. Overall, our findings suggest that limited arbitrage risk is priced and LAF is a relevant risk-factor.

Keywords: Asset Pricing; Factor Model; Limits of Arbitrage; Systematic; Risk; Arbitrage Risk

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