

Accepted Manuscript

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PII: S2214-8450(17)30191-6

DOI: [10.1016/j.bir.2018.02.001](https://doi.org/10.1016/j.bir.2018.02.001)

Reference: BIR 119

To appear in: *Borsa istanbul Review*

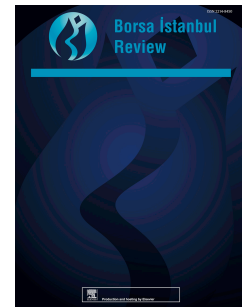
Received Date: 27 November 2017

Revised Date: 8 February 2018

Accepted Date: 16 February 2018

Please cite this article as: Roy R. & Shijin S., A six-factor asset pricing model, *Borsa istanbul Review* (2018), doi: 10.1016/j.bir.2018.02.001.

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A six-factor asset pricing model

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Abstract The present study introduce the human capital component to the Fama and French five-factor model proposing an equilibrium six-factor asset pricing model. The study employs an aggregate of four sets of portfolios mimicking size and industry with varying dimensions. The first set consists of three set of six portfolios each sorted on size to B/M, size to investment, and size to momentum. The second set comprises of five industry portfolios, third, a four-set of twenty-five portfolios each sorted on size to B/M, size to investment, size to profitability, and size to momentum, and the final set constitute thirty industry portfolios. To estimate the parameters of six-factor asset pricing model for the four variant portfolios, we use OLS and Generalized method of moments based robust instrumental variables technique (IVGMM). The results obtained from the relevance, endogeneity, overidentifying restrictions, and the Hausman's specification, tests indicate that the parameter estimates of the six-factor model using IVGMM are robust and performs better than the OLS approach. The human capital component shares equally the predictive power alongside the factors in the framework in explaining the variations in return on portfolios. Furthermore, we assess the *t*-ratio of the human capital component of each IVGMM estimates of the six-factor asset pricing model for the four sets of variant portfolios. The *t*-ratio of the human capital of the eighty-three IVGMM estimates are more than 3.00 with reference to the standard proposed by Harvey et al. (2016). This indicates the empirical success of the six-factor asset-pricing model in explaining the variation in asset returns.

Keywords: FF portfolio, human capital, IVGMM approach, return predictability, six-factor asset pricing model

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