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International tests of a five-factor asset pricing model

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Abstract

Average stock returns for North America, Europe, and Asia Pacific increase with the book-to-market ratio (B/M) and profitability and are negatively related to investment. For Japan, the relation between average returns and B/M is strong, but average returns show little relation to profitability or investment. A five-factor model that adds profitability and investment factors to the three-factor model of Fama and French (1993) largely absorbs the patterns in average returns. As in Fama and French (2015, 2016), the model's prime problem is failure to capture fully the low average returns of small stocks whose returns behave like those of low profitability firms that invest aggressively.

JEL Classification: G15

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