



Enhancing the explanatory power of Fama & French three Factors model by using Capital Productivity Factor

Gholamreza Eslami Bidgoli¹.PhD

Mohammad Khojasteh²

After challenges about CAPM, Fama & French 3 factors model could explain several return anomalies. Recent studies show that capital productivity effects on stock returns and the strategy of selecting productive firms could lead to excess return on the base of expected return of Fama & French 3 factors model. In this research, We show that capital productivity in Tehran Stock Exchange (TSE) could be a source of excess return too, and increases alpha in portfolio assessment. We used data of firms in TSE during 8 years from 2000 to 2007. Finally the application of capital productivity factor with the other 3 factors could explain the return anomaly and excess return of productive portfolios and enhanced the adjusted R² of the model.

Key words: Return anomalies, Return on invested capital (ROIC), Capital productivity, Fama & French 3 factors model.

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1- Assistant Professor of Finance - Tehran University

2- Master of Finance