

Is value premium driven by risk in the stock exchange of Thailand? A comparison of the Fama/French three-factor model and Fama/French five-factor model

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Abstract

The value vs. growth trading strategies suggest investor going long in value stocks and short in growth stocks. The existence of value premium in SET is confirmed between September 2005 and July 2019. Using the three measures of model accuracy (i.e., mean squared error, root mean squared error, and mean absolute error), the three-factor model outperforms the five-factor model in explaining the observed value premium. The value premiums disappear after controlling for risk. Thus, risk is one possible reason driving value premium. According to close-knit networks, risk is expected to drive value premium in others emerging markets especially in ASEAN.

Keywords

value investing, risk, the three-factor model, the five-factor model, trading strategies, value premium