III   EXECUTIVE SUMMARY

Question & Procedure

This thesis aims to analyze the relation between market capitalization of stocks and their returns. Market capitalization is defined as the total value of a company's equity. Numerous researchers have documented a higher risk premium in stocks with smaller market capitalization. However, while evidence abounds for the US equity market, there is still a lack of research on the size effect in the Swiss equity market.

To evaluate whether a size premium exists, size decile portfolios are constructed. The return spread between the smallest and the largest decile portfolios, SMB, acts as a proxy for the size premium. Subsets for each month are analyzed to spot possible calendar anomalies such as the January effect. Later, the Fama MacBeth regression is employed to further analyze the factor for the entire observation period, January only and the entire period, excluding January.

Results

No significant size premium can be found. The average monthly SMB return during the observation period was 0.11%, and due to the t-statistic of 0.38, the hypothesis that SMB is distinguishable from zero cannot be rejected. However, January yielded monthly average return of 2.78%. Although not statistically significant due to the t-statistic of 1.63, there seems to be a "small firm in January effect". The Fama-MacBeth regression, in conjunction with Shanken's correction, yielded similar results. Although positive with an average annualized return of 1.16% p.a., the estimated size premium, $\hat{\lambda}_{SMB}$, was not statistically significant in any of the three subsets. January yielded a $\hat{\lambda}_{SMB}$ of 2.5% and a t-statistic of 1.41, the highest among the three subsets.