

**University of Zurich**

Institute of Banking and Finance

Chair of Financial Economics

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**Bachelor Thesis**

Predictability of the Capital Asset Pricing Model for Expected Returns  
of Growth and Value Stocks

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## **Abstract**

Multiple economic studies come to the conclusion that value stocks outperform growth stocks. Especially the claim that the Capital Asset Pricing Model is unable to explain this value premium causes a stir in the financial world.

The goal of this thesis is to give an overview of the CAPM and to discuss its pros and cons. Furthermore, the value premium is examined whether there is any explanation for its existence and which factors are responsible for it. Deduced from these findings the Fama and French's "Three Factor Model" is described which seems to have a more accurate record of predicting expected returns than the CAPM. By analyzing returns of portfolios formed on the book-to-market ratio and size for the time period between 1963 and 2011, the statistical results indicate that the CAPM is not able to provide a satisfactory explanation for the value premium.