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MULTI-FACTOR RISK MODEL AND STOCK RETURN IN VIETNAM

Abstract:

In this paper we examine stock return and risk factor in Vietnamese stock market. Using a multi-factor framework, we decomposed stock return into 4 components represented by market, size, value and liquidity. We use two-stage regression, in which the first stage involves time series regressions and the second involves cross-sectional analysis. The GRS F-test (Gibbons, Ross, and Shanken, 1989) is used to check the reliability of the four factor model. Our paper provides an empirical evidence to confirm the role of market, size, value and liquidity factors in explaining stock returns in Vietnam. Unlike the prevailing literature which suggests value and low liquidity stocks should outperform, this paper finds that growth and high liquidity stocks do better. The finding of this paper also suggests an investment winning strategy for financial institutions in Vietnam.

Keywords:

Stock Return, Multi-factor Risk, Vietnam Stock Market