Factor/Style Investing

Betting Against Beta: Equity Factors, Daily

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This data set is related to “Betting Against Beta” (Frazzini and Pedersen, 2014). A basic premise of the capital asset pricing model (CAPM) is that all agents invest in the portfolio with the highest Sharpe ratio, or expected excess return per unit of risk, and leverage or de-leverage this portfolio to suit their risk preferences. However, many investors — such as individuals, pension funds and mutual funds — are constrained in the leverage that they can take, and therefore overweight riskier securities instead. This behavior of tilting toward beta suggests high-beta assets require lower risk-adjusted returns than low-beta assets. Indeed, the security market line for U.S. stocks is too flat relative to the CAPM and is better explained by the CAPM with limited borrowing. This raises several questions: What is the magnitude of this anomaly relative to the size, value and momentum effects? Is betting against beta rewarded in other countries and asset classes? How does the return premium vary over time and in the cross section? How does one bet against beta? To explore these questions, we construct market-neutral betting-against-beta (BAB) factors, which are long leveraged low-beta assets and short high-beta assets.

This data set is an updated and extended version of the paper data, for which we provide daily long/short BAB equity factors. BAB equity factors are for U.S. equities and 23 international equity markets (as well as multiple international and global aggregates). Daily data is updated and extended monthly. We also provide the returns for several additional global factors for reference.

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