Ain Shams University
Faculty of Business

Testing the Effectiveness of the Behavioral Capital Asset Pricing Model in Inefficient Markets

"Applied Study on Listed Companies in the Egyptian Stock Exchange"

تقييم فعالية نموذج تسعير الأصول الرأسمالية السلوكي في الأسواق غير الكفؤة

"دراسة تطبيقية علي الشركات المدرجة بالبورصة المصرية"

A Thesis

Submitted in Partial Fulfillment of the Requirements for the Master of Science in Business Administration

By

Mostafa Yousef Hassan Mahmoud

Supervised by

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Testing the Effectiveness of the Behavioral Capital Asset Pricing Model in Inefficient Markets

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Abstract

This research examined whether a behavioral capital asset pricing model based on investor sentiment has more explanatory power in explaining stocks returns over other theoretical and empirical asset pricing models. In this attempt to test the explanatory power of this newly behavioral asset pricing model. A principal component analysis method was used to construct a sentiment index based on two underlying proxies, market turnover and volatility premium. This study contributes to the literature as there are no studies examined the behavioral capital asset pricing theory validity in the Egyptian Stock Exchange. This research has two main empirical results. First, the Fama and French three-factor model has little explanatory power within the Egyptian Stock market. Although the size factor is priced within sample stocks average returns, the value factor showed no effect on stock returns. Second, investor sentiment has a significant effect on stocks average returns. This result support the existence of the noise trader effect within the Egyptian Stock market.

Keywords: *Traditional Finance, Behavioral Finance, Asset Pricing, Behavioral Asset Pricing Theory, Investor Sentiment, Efficient Market Hypothesis*

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INTRODUCTION