Abstract

This is an empirical research aimed at evaluating the risk and return characteristics of firms in the light of the commonly used asset pricing model. In order to achieve the aim, certain key objectives were set which includes but not limited to looking at the impact of the size of beta on firms return by creating and analysing portfolios of Beta and returns. The reason for undertaking this research is to explore if there exist a relationship between the risk and return of firms and the relevance of such relationship if it exist. This was done in the light of commonly used asset pricing model.

There are different types of asset pricing models which include the capital asset pricing model, the arbitrage pricing model, the multifactor models and the proxy models (Damodaram 2011). However of all these models, the most commonly used is the CAPM proposed by William Sharpe.

This research focuses on using the CAPM to establish the relationship between risk and return. 200 companies were randomly selected from the FTSE ALL SHARE INDEX.

The researcher will review the relationship between risk and return by analysing the historical data of 200 traded shares of different firms in different sectors. This companies were classified as big firms and small firms; High beta firms and low beta firms. Portfolios of beta and returns were created to aid the analysis.

Keywords: Risk, Return, Beta, Asset Pricing, CAPM.

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