

# The Size and Book-To-Market Effects and Their Role as Risk Proxies in the Istanbul Stock Exchange

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## **Abstract:**

In this paper, we explore the relationship of firm-size and book-to-market equity with stock returns and with firm-specific and macro-economic fundamentals in the Istanbul Stock Exchange (ISE). We apply two different popular asset pricing models, the one factor CAPM and the three-factor Fama and French (1993) model, to individual stock returns and to size/book-to-market sorted portfolios. We find both size and book-to-market effects to be significant, but the size effect has a higher explanatory power. We also evaluate additional firm-specific risk characteristics of our extreme portfolios and their returns in different states of the Turkish economy and relate the size and book-to-market related Fama and French factors to macro-economic indicators. Our results reveal some new empirical regularities in the ISE and support the Fama and French findings to justify models for additional risk factors in returns.

Note: Previously titled: The Role of Size and Book-to-Market Ratio as Proxies for Fundamentals and as Determinants of Returns in the Istanbul Stock Exchange

Keywords: beta, size, book-to-market ratio, emerging markets, asset-pricing, Istanbul Stock Exchange

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