

Idiosyncratic risk and the cross-section of expected stock returns: Evidence in Thailand

ABSTRACT

This study examines the existence of idiosyncratic risk and the relationship between the idiosyncratic risk and the expected stock returns on the evidence in Thailand for the period of October 1999 to December 2010. To measure the idiosyncratic volatility, we observe the standard deviation of residuals in Fama and French three factor model. Using Generalized Autoregressive Conditional Heteroskedasticity (GARCH) model, we can estimate the time-varying idiosyncratic volatility. We employ Fama – MacBeth (1973) cross sectional regression to study the association. The result shows that idiosyncratic volatility exists in the evidence of Thai stock market. Besides, it is positively related to the expected stock return on the analysis of cross section. Furthermore, we extend our study to include BETA or systematic risk. We find that idiosyncratic volatility can explain the expected stock return. Additionally, we check the robustness of the result by using panel data regression. The result represents consistent with the cross sectional regression's result.