

ABSTRACT

This study explored the effect of leverage mimicking portfolio in explaining stock returns. Following the procedure of Fama and French and Carhart in forming size, book-to-market equity ratio and momentum mimicking portfolios, this study developed a leverage mimicking portfolio and included it as an additional factor to the current asset pricing model. The empirical results showed the significant effect of the leverage mimicking portfolio in explaining stock returns for both the broad sample of non-financial firms and also for the different industries. At the industry level analysis the results showed that the effect of leverage mimicking portfolio varied on industry. Most showed a strongly positive and significant result in high leverage level portfolios. This clarified the capital market behaviour in Thailand, where leverage is priced.

Keywords: Capital Structure, Leverage, Stock Return, Asset Pricing Model, Mimicking Portfolio