



# Factor/Style Investing

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## Pricing Without Mispricing

July 16, 2021

We offer a novel test of whether an asset pricing model describes expected returns in the absence of mispricing. Our test assumes such a model assigns zero alpha to investment strategies using decade-old information. The CAPM satisfies this condition, but prominent multifactor models do not. While multifactor betas help capture current expected returns on mispriced stocks, persistence in those betas distorts the stocks' implied expected returns after prices correct. These results are most evident in large-cap stocks, whose multifactor betas are the most persistent. Hence, prominent multifactor models distort expected returns, absent mispricing, for even the largest, most liquid stocks.

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