



## **Research Paper Number 10**

### **Assessing Asset Pricing Anomalies**

#### **Authors:**

Michael J. BRENNAN - University of California, Los Angeles  
Yihong XIA - University of Pennsylvania

#### **Date:**

July 1999

This paper has now been published and is no longer available as a part of our Research Paper Series. The reference to this paper is:

**Brennan, M.J., Xia, Y. (2001): "Assessing Asset Pricing Anomalies". Review of Financial Studies, 2001, vol. 14, issue 4, pages 905-42.**

#### **Abstract:**

The optimal portfolio strategy is developed for an investor who has detected an asset pricing anomaly but is not certain that the anomaly is genuine rather than merely apparent. The analysis takes account of the fact that the parameters of both the underlying asset pricing model and the anomalous returns are estimated rather than known. The value that an investor would place on the ability to invest to exploit the apparent anomaly is also derived and illustrative calculations are presented for the Fama-French three factor model, which is anomalous relative to the CAPM.