

Accepted Manuscript

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PII: S0304-405X(16)30215-X
DOI: [10.1016/j.jfineco.2016.11.004](https://doi.org/10.1016/j.jfineco.2016.11.004)
Reference: FINEC 2715

To appear in: *Journal of Financial Economics*

Received date: 25 December 2015
Revised date: 11 March 2016
Accepted date: 9 June 2016

Please cite this article as: Eugene F. Fama , Kenneth R. French , International tests of a five-factor asset pricing model, *Journal of Financial Economics* (2016), doi: [10.1016/j.jfineco.2016.11.004](https://doi.org/10.1016/j.jfineco.2016.11.004)

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First draft: December 2014
This draft: June 2016

International tests of a five-factor asset pricing model

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Abstract

Average stock returns for North America, Europe, and Asia Pacific increase with the book-to-market ratio (B/M) and profitability and are negatively related to investment. For Japan, the relation between average returns and B/M is strong, but average returns show little relation to profitability or investment. A five-factor model that adds profitability and investment factors to the three-factor model of Fama and French (1993) largely absorbs the patterns in average returns. As in Fama and French (2015, 2016), the model's prime problem is failure to capture fully the low average returns of small stocks whose returns behave like those of low profitability firms that invest aggressively.

JEL Classification: G15

Keywords:

International asset pricing
Multifactor models
Dividend discount model

Eugene F. Fama and Kenneth R. French are consultants to, board members of, and shareholders in Dimensional Fund Advisors. Thanks to Stanley Black, Savina Rizova, and the research group at Dimensional Fund Advisors for constructing the data files. Thanks also to the Journal of Financial Economics referee for two rounds of excellent comments.

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