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Time-varying continuous and jump betas: The role of firm characteristics and periods of stress

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Abstract

Using high frequency data we decompose the time-varying beta for stocks into beta for continuous systematic risk and beta for discontinuous systematic risk. Estimated discontinuous betas for S&P500 constituents over 2003-2011 generally exceed the corresponding continuous betas. Smaller stocks are more sensitive to discontinuities than their larger counterparts, and during periods of financial distress, high leverage stocks are more exposed to systematic risk. Higher credit ratings and lower volatility are each associated with smaller betas. Industry effects are also apparent. We use the estimates to show that discontinuous risk carries a significantly positive premium, but continuous risk does not.

Keywords: systematic risk, jumps, equity risk premium, high-frequency data

JEL: C58, G11, G01

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