A Skeptical Appraisal of Robust Asset Pricing Tests

Tim A. Kroencke
University of Neuachtel

Julian Thimme
KIT

We analyze the size and power of a large number of “robust” asset pricing tests of the hypothesis that the price of risk of a candidate factor is equal to zero. Different from earlier studies, our approach puts all tests on an equal footing and focuses on sample sizes comparable to standard applications in asset pricing research. Thus, our paper guides researchers on which method to use. A simple test based on bootstrapped confidence intervals stands out as it does not over-reject useless factors and is powerful in detecting useful factors.