Sri Lankan Journal of Management
Volume 14, Number 1

Risk Factors in the Sri Lankan Capital Market

Lakshman Alles
Louis Murray

Abstract

This paper examines whether additional risk factors such as the variance, skewness and coskewness of returns offer an appropriate explanation of company returns in the Sri Lankan Capital Market. Arguments for considering these risk factors in pricing models to better deal with the characteristics of a smaller developing capital market are presented. Using individual company returns, empirical tests examine whether the extra risk factors offer a significant explanation of the cross section of returns. Results indicate that while CAPM betas offer little explanation of company returns, variance and, to a lesser extent, skewness are significantly related to returns in this market. Coskewness has little importance. Robustness tests confirm that these measures are unrelated to company size.

Keywords: *Alternative risk measures; Sri Lankan stock market, Developing capital markets*

Dr. Lakshman Alles
School of Economics and Finance,
Curtin University of Technology,
Perth 6001, Australia.
Lakshman.Alles@cbs.curtin.edu.au

Dr. Louis Murray
Professor of Finance
University College Dublin,
Blackrock, Co. Dublin,
Ireland.
Louis.Murray@ucd.ie