

## **The fama and french three factor model: Evidence from Colombo stock exchange**

Nayanarasi K.H.D.\* and Perera S.S.N.

*Research & Development Centre for Mathematical Modeling, Department of Mathematics,  
University of Colombo, Colombo 03, Sri Lanka*

This study tested Fama and French Three Factor Model on the banking, finance and insurance sector of the Colombo Stock Exchange using monthly stock data of 34 listed companies for a period of six years, ranging from October 2012 to December 2018. This study showed a significant and zero intercept which would imply the factors outside the market factor, size, and value factor are not explaining the mean return of the portfolios. The study further found that the market factor, in all the portfolios, plays a key role in explaining variation in stock returns. This study concluded that Fama and French Three Factors model has the ability to explain the cross-sectional variations of average returns on Sri Lankan stock market and it has a significant fit when compared to the Capital Assets Price Model.

**Keywords:** fama and french three-factor model, capm model, colombo stock exchange and stock returns

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\*Corresponding author: [dnnayanarasid@gmail.com](mailto:dnnayanarasid@gmail.com)