

Did Low Beta Stocks Prove to be Good Hedges ?

- Yearly Price Changes Nov 25-2007 to Nov 24-2008
- Predicted Price Change:

$$\widehat{R}_X = R_F + \beta_X(R_M - R_F)$$

– “characteristic line”

- S&P 500 -39.5 %
- Risk-Free Rate 3%
- Excess Return on S&P 500 -42.5%

$$- = R_M - R_F$$

Stock	Beta	Predicted Change	Actual Change
Ford	2.18	-89.7	-77.8
Apple	1.92	-78.6	-46.1
Google	1.57	-63.7	-61.4
Bank of America	1.03	-40.7	-65.2
General Electric	1.01	-39.9	-58.5
Exxon	0.61	-22.9	-8.0
Procter & Gamble	0.49	-17.8	-10.4
Walmart	0.19	-5.1	17.2