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ABSTRACT

Vast majority of literature in empirical asset pricing has documented but yet unable to provide uniform results on idiosyncratic risk – return relationship. This paper introduces a new approach to analysing the relation between expected stock returns and idiosyncratic risk. Using volatility indices on individual stocks (equity VIX), our research based on a small representative sample points to a negative relation between idiosyncratic risk and return.

Keywords: idiosyncratic volatility, VIX, equity VIX, CAPM, implied volatility.