This paper questions the central assumption of global risk-aversion that underlies the Capital Asset Pricing Model (CAPM) based on studies in psychology and economics that provide convincing evidence that individual's probability beliefs of outcomes are systematically biased and affect his/her risk attitudes. A representative investor with such biases displays risk-seeking behavior over the high market returns states-of-the-world and has an increasing marginal utility function over such states, in contrast to a decreasing function implied by global risk-aversion. I develop an expected return-risk framework that allows tests of the restrictions on the marginal utility function conditional on the states-of-the-world. Empirical tests using the NYSE/ Amex/ Nasdaq monthly stock data show evidence of risk-seeking behavior as implied by systematic biases in probability beliefs. Further, results from the post-1963 period suggest that an average excess stock return of -2.92% per month in the small cumulative probability states of negative excess market returns implies a contribution of +2.47% per year to the expected return, while an average excess stock return of +4.77% per month in the small decumulative probability states of positive excess market returns implies a contribution of -2.31% per year to the expected return. The latter finding is in sharp contrast to the CAPM's prediction that stocks that have higher returns when the market return is high have higher expected returns.