

Stock Return Predictability through Financial Ratios: a Panel Regression Analysis

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Performance of various fundamental aspects of a company can be judged through different financial ratios like Return on Investment (ROI), Price-Earnings Ratio (P/E Ratio), Earning per Share (EPS), Debt-Equity Ratio (D/E Ratio) etc. Technical analysis focuses only on open, high, low and closing price of a stock and gives importance on associated trading volume and in case of future and option traded shares as well as indices focus on open interest. In this paper, we first investigate the influence of various financial ratios on share price movement and also the degree of association among them. Secondly, we have attempted to examine the impact of estimated share price movement which we have derived by regressing in first experiment and other two explanatory variables daily variability in share price and risk element (β) on stock returns.

This research contains two step panel regression analyses. We have collected data for the period of ten years (2008-2017) from National Stock Exchange (NSE) historical data base, Capitaline data base, Yahoo finance, Trend Solution and money control.com. We have applied various panel regression tests like Breusch and Pagan Lagrangian multiplier test for random effect, pooled Ordinary Least Squares (OLS) model, fixed effect model, random effect model, and Housman specification test etc. for the analysis. We have tested at 1 percent level of significance and found financial ratios have significant impact on share returns.

Key Words: *Fundamental analysis, Technical analysis, Financial ratios, Hausman test*