

THE RELATIONSHIP BETWEEN EARNINGS YIELD AND MARKET VALUE: EVIDENCE FROM THE AMERICAN STOCK EXCHANGE

Ronald C. Rogers

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ABSTRACT

This paper provides new evidence on the empirical anomalies known as the earnings/price (E/P) effect and the size effect in the pricing of common stock. Previous authors have arrived at contradictory conclusions regarding the existence and relative importance of the anomalies, and the intent of this paper is to help clarify the issues. An empirical method used in a previous study of these issues is replicated and applied to a new set of firms—those traded on the American Stock Exchange (AMEX). This approach assures comparability with previous results and provides a sample with different market value and E/P distributions. The results from the AMEX suggest that the size effect and the E/P effect both exist and that the size effect is predominant. These results persist even after accounting for the January effect.

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