

LOW PRICE, PRICE-EARNINGS RATIO, MARKET VALUE, AND ABNORMAL STOCK RETURNS

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ABSTRACT

In this research, the individual and net effects of low price, low price/earnings (P/E) ratio, and small size on the risk-adjusted excess returns are investigated for the fourth quarter of 1975 to the fourth quarter of 1985. The entire sample is divided into quintiles, and the resulting portfolios are rebalanced at the end of each quarter. Low price, low P/E ratio, and small value portfolios did experience greater excess returns. By applying the experimental control technique, the net effect of stock price is significant after controlling the size. Similarly, the net effect of the market value is significant after the stock price is controlled. The net effect of the P/E ratio is insignificant after controlling either the stock price or the market value.

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