

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

Kuo C. Tseng

First published: August 1988

<https://doi.org/10.1111/j.1540-6288.1988.tb01271.x>

Citations: 10

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.

REFERENCES

- [1] Bachrach, B., and D. Galai. The Risk-Return Relationship and Stock Prices. *Journal of Financial and Quantitative Analysis* 14(June 1979): 421–441.
- [Web of Science®](#) | [Google Scholar](#)
-
- [2] Banz, R. W. The Relationship between Return and Market Value of Common Stocks. *Journal of Financial Economics* 8(March 1981): 3–18.
- [Web of Science®](#) | [Google Scholar](#)
-
- [3] Bar-Josef, S., and L. D. Brown. Share Price Levels and Beta. *Financial Management* 8(Spring 1979): 60–63.
- [Web of Science®](#) | [Google Scholar](#)
-
- [4] Basu, S. Investment Performance of Common Stock in Relation to Their Price-Earnings Ratios. *Journal of Finance* 32(June 1977): 663–682.
- [Web of Science®](#) | [Google Scholar](#)
-
- [5] Basu, S. The Relationship between Earnings' Yield, Market Value and Return for NYSE Common Stocks: Further Evidence. *Journal of Financial Economics* 12(June 1983): 129–156.

[6] Black, F., M. C. Jensen, and M. Scholes. The Capital Asset Pricing Model: Some Empirical Tests." In *Studies in the Theory of Capital Markets*, edited by M. C. Jensen, New York : Praeger, 1972.

[7] Blume, M. E., and Frank Husic. Price, Beta, and Exchange Listing. *Journal of Finance* 28(May 1973): 283–299.

[8] Breen, W. Low Price-Earnings Ratios and Industry Relatives. *Financial Analysts Journal* 24(JulyAugust 1968): 125–127.

[9] Brown, P., A. W. Kleidon, and T. A. Marsh. New Evidence on the Nature of Size Related Anomalies in Stock Prices. *Journal of Financial Economics* 12(June 1983): 33–56.

[10] Clendenin, J. C. Quality versus Price as Factors Influencing Common Stock Price Fluctuations. *Journal of Finance* 6(December 1951): 398–405.

[11] Cook, T. J., and M. S. Rozeff. Size and Earnings/Price Ratio Anomalies: One Effect or Two *Journal of Financial and Quantitative Analysis* 19(December 1984): 449–466.

[12] Edmister, R. O., and J. B. Greene. Performance of Super-Low-Price Stocks. *Journal of Portfolio Management* 7(Fall 1980): 36–44.

[13] Fritzmeier, L. H. Relative Price Fluctuations of Industrial Stocks in Different Price Groups. *Journal of Business* 9(April 1936): 133–154.

[14] Goodman, D. A., and J. W. Peavy. The Low Price Effect: Relationship with Other Stock Market Anomalies." Paper presented at the Southwestern Finance Association Conference, New Orleans, March 1985.

[15] Heins, A. J., and S. L. Allison. Some Factors Affecting Stock Price Variability. *Journal of Business* 39(January 1966): 19–23.

[Web of Science®](#) | [Google Scholar](#)

[16] Keim, D. B. Size-Related Anomalies and Stock Market Seasonality: Further Evidence. *Journal of Financial Economics* 12(June 1983): 13–32.

[Web of Science®](#) | [Google Scholar](#)

[17] Kross, W. The Size Effect Is Primarily a Price Effect. *Journal of Financial Research* 8(Fall 1985): 169–179.

[Web of Science®](#) | [Google Scholar](#)

[18] McWilliams, J. D. Prices, Earnings, and P-E Ratios. *Financial Analysts Journal* 22(May/June 1966): 137–142.

[Google Scholar](#)

[19] Peavy, J. W., and D. A. Goodman. The Significance of Price-Earnings Ratios on Portfolio Returns. *Journal of Portfolio Management* 10(Winter 1983): 43–47.

[Google Scholar](#)

[20] Pinches, G. E., and G. M. Simon. An Analysis of Portfolio Accumulation Strategies Employing Low-Priced Common Stocks. *Journal of Financial and Quantitative Analysis* 7(June 1972): 1773–1796.

[Web of Science®](#) | [Google Scholar](#)

[21] Reinganum, M. R. Misspecification of Capital Asset Pricing: Empirical Anomalies Based on Earnings Yields and Market Values. *Journal of Financial Economics* 9(March 1981): 19–46.

[Web of Science®](#) | [Google Scholar](#)

[22] Reinganum, M. R. The Anomalous Stock Market Behavior of Small Firms in January. *Journal of Financial Economics* 10(June 1982): 89–104.

[Google Scholar](#)

[23] Roll, R. A Possible Explanation of the Small Firm Effect. *Journal of Finance* 36(September 1981): 879–888.

[Web of Science®](#) | [Google Scholar](#)

[24] Roll, R. Was Ist Das *Journal of Portfolio Management* 10(Winter 1983): 18–28.

[Google Scholar](#)

[25] Scheffe, H. *The Analysis of Variance*. New York : John Wiley & Sons, 1959.

[Web of Science®](#) | [Google Scholar](#)

[26] Schwert, G. W. Size and Stock Returns and Other Empirical Regularities. *Journal of Financial Economics* 12(June 1983): 3-12.

[Web of Science®](#) | [Google Scholar](#)

[27] Theil, H. *Principles of Econometrics*. New York : John Wiley & Sons, 1971.

[Google Scholar](#)

Citing Literature



[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)

[Wiley Press Room](#)

