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Price/Book Value Ratios and Equity Returns on the Tokyo Stock Exchange: Empirical Evidence of an Anomalous Regularity

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Abstract

This study examines the relationship between accounting data and financial market data for securities listed on the Tokyo Stock Exchange. We document, for the first time for a non-U.S. market, a significant price to book value ratio effect; i.e., Japanese equities with low price to book value ratios earn higher returns than those with high price to book value ratios, and this price to book value effect is stronger in January and June and for smaller firms. One implication of the international pervasiveness of these empirical regularities is that explanations for these effects that are based on unique institutional or accounting procedures are unlikely to be sufficient.

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