

# Price-Earnings and Price-to-Book Anomalies: Tests of an Intrinsic Value Explanation \*

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## Abstract

**Abstract.** Price deviations from basic valuation models based on accounting earnings and book value of owners' equity are used to test the intrinsic value explanation of the price-earnings and price-book value anomalies. Relative price deviations from the implied benchmark prices are used to assign years into high and low deviation groups. Traditional zero investment hedge portfolios are formed in each year, and the returns are compared across high and low deviation years. The high deviation years show significantly larger size- and risk-adjusted returns over four holding periods, providing strong evidence in favor of an intrinsic value explanation of the anomalies. The findings also indicate that the test periods chosen for earlier studies can play a role in the results generated.

**Résumé.** Les auteurs utilisent les écarts de prix dérivés des modèles d'évaluation de base fondés sur les bénéfices comptables et la valeur comptable des capitaux propres pour vérifier l'explication des anomalies relevées dans les rapports cours-bénéfice et cours-valeur comptable, qui repose sur la valeur intrinsèque. Les écarts relatifs des cours par rapport aux cours de référence implicites sont utilisés par les auteurs pour classer les années selon la nature élevée ou faible des écarts. Pour chaque année sont constitués des portefeuilles traditionnels dont les placements ne font l'objet d'aucune couverture, et les rendements sont soumis à une comparaison combinée des années présentant des écarts élevés et faibles. Les années présentant un écart élevé affichent des rendements supérieurs et ajustés pour tenir compte du risque au cours de quatre périodes de détention, ce qui milite clairement en faveur de l'explication des anomalies reposant sur la valeur intrinsèque. Les résultats indiquent également que les périodes de test choisies dans les études antérieures peuvent avoir influé sur les résultats obtenus.

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