Financial Analysts Journal ›
Volume 53, 1997 - Issue 3



FEATURE ARTICLES

# A Fundamental Analysis of Korean Stock Returns

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Pages 75-80 | Published online: 02 Jan 2019

Cite this article https://doi.org/10.2469/faj.v53.n3.2086



## Abstract

Korea has one of the largest stock markets in the world and is in the process of being opened to foreign investors. In an investigation of the relations between stock returns and fundamental variables in Korea, annual stock returns during the 1982–93 period were positively related to book–market, sales–price, and debt–equity ratios, negatively related to firm size, and not significantly related to the earnings–price ratio or beta. These results add to the growing international evidence that value stocks outperform growth stocks over long periods. Also for Korean stocks, book–market and sales–price ratios are more efficient indicators of value than the earnings–price ratio, and the debt–equity ratio is a more reliable proxy for risk than beta.

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