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# New Evidence on Size and Price-to-Book Effects in Stock Returns

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## Abstract

Firm size and price-to-book-value ratio are prominent measures in explaining cross-sectional stock returns. Historically, average returns on shares of small-capitalization firms and low price-to-book firms have exceeded those on large-capitalization firms and high price-to-book firms. Recent evidence also shows that monetary policy developments significantly explain security returns. When we considered the influence on stock returns of the Federal Reserve's policy stance, we found that size and price-to-book effects depend largely on the monetary environment. Specifically, the small-firm and low price-to-book premiums are economically and statistically significant only in expansive monetary policy periods and are small, and in some instances negative, in restrictive policy periods. This evidence suggests that investors should consider the Fed's policy stance when using strategies that rely on size or price-to-book ratio.

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