

Predictability of Stock Returns Using Financial Ratios Empirical Evidence from Colombo Stock Exchange

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The purpose of this research is to examine the ability of the historical financial information in constructing a resilient value portfolio for investors by predicting stock returns in the Sri Lankan context. One of the most imperative and interesting phenomena for the investors and the analysts would be the stock returns from the financial markets. The present study will aim at mainly to assess correlation between financial ratios and the predictability of stock returns for companies listed on the Colombo Stock Exchange. This study applies ordinary least squares (OLS) techniques to estimate the predictive regressions in form of simple and multiple models of panel data sets. For the current study, 60 listed companies were selected and 10 years of data has been analyzed from 2004 to 2013. The results highlighted that ROE, EPS and MV/BV have a significant positive relationship with the stock return which is followed by a simple equation to predict the future stock returns. Hence the investors should consider these ratios of the companies and movement in these ratios in selecting a resilient portfolio to invest.

Keywords: *Financial Ratios, Stock Return, Colombo Stock Exchange*