

Prediction of Stock Returns with Pricing of Share Warrants: Evidence from Sri Lanka

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ABSTRACT

Introduction - The purpose of this paper is to examine whether the share warrant prices predict the future stock returns.

Design/Methodology/Approach - Data of stocks under S&P SL20 index are analyzed using Generalized Method of Moments.

Findings - Warrant prices have a positive significant short run and long run relationship between warrant prices and S&P SL20 stock returns. Therefore, Researcher conclude that the warrant prices have the ability to predict the S&P SL20 stock returns.

Conclusion - The changes in the share warrant prices are mostly impacted to the share returns of the companies which have highest market capitalization in Sri Lankan context as the S&P SL 20 companies have been selected as the sample of the study.

Keywords: *Warrant Prices, S&P SL20 Stock Returns, Generalized Method of Moments, Wald Test, Granger Causality.*