The Study of Performance of Value versus Growth Stocks in Sri Lankan Capital Market in Post War Era

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Abstract

Classification of stocks either value or growth has been considered as one of the investments styles, a modern investor would be gratified of. Value stocks are those stocks that trade at low prices compared to the fundaments of the company with low price multiples whereby growth stocks are those stocks with high price multiples and trade at high prices. The performance of value and growth stocks are studied by means of value and growth portfolios, which are constructed on the basis of price-to-earnings, price-to-book and price-to-cash flow. Hence this study examines the performance of value and growth stocks during the post war era including the period of 2009 to 2014 in Sri Lankan Capital Market. The main objective of this study is to test the applicability of the theory to the Sri Lankan context. To classify stocks to be included in value or growth portfolios, ranking each of the multiple in descending order for each year has been used and the highest 30 companies were taken as growth portfolios and lowest 30 companies were taken as value portfolios. The portfolio average return, risk and beta were calculated for each portfolio as well as the return per unit of risk for each portfolio was measured by Jensen's Alpha and Treynor methods. Besides return and risk, price-multiples are studied to identify whether one price multiple provide higher return than others. The findings of the study does not provide a statistically significant value premium for the value stocks in terms of absolute value as well as risk adjusted return basis, which leads to a conclusion that, in the Sri Lankan Capital Market Context, the outperformance of value stocks over growth stocks in a short time horizon does not hold valid.

Keywords: *Style Investing, growth stocks, value stocks, stock performance, capital market.*

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