



**The Relation between Average Stock Return to Earning
Ratio and Book to Market Ratio in FTSEBM**

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Earning Ratio and Book to Market Ratio in FTSEBM**

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A thesis submitted to the
fulfillment of the requirement for the degree
Master of Science (Finance)
College of Business (Division of Accounting and Finance)
Universiti Utara Malaysia
2009

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ABSTRACT

Malaysia stock market is an emerging market in Asia. Recently, Malaysia has implemented some liberalizations in the stock market. Malaysia stock market is a potential market to get high profits., Many local as well as foreign investors would be interested to know whether the Malaysian stock returns could predicted by financial ratios. The main purpose of this study is to investigate the ability of price to earning and book-to-market ratios to predict future stock market returns in FTSEBM.. A linear regression analysis is applied for this purpose. Findings reveal that book to market ratio significantly influences stock return,while there is no significant positive linkage between price to rarning ratio and stock return.

DEDICATION

To my great beloved father Mr. Massad Alrawashdeh

DECLARATION

I am responsible for the accuracy of all opinion, technical comment and illustrations in this project paper except for citations and quotations that have been adequately acknowledged. I bear full responsibility for the checking whether material has been previously or concurrently submitted for any other master's programme at UUM or other institutions. UUM does not accept any liability for the accuracy of such comment, report and other technical information claims.

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NAJED MASSA SULAIMAN ALRAWASHDEH

ACKNOWLEDGMENTS

In the name of Allah, Most Gracious, Most Merciful.

I would like to express my full gratitude to my supervisor, Associate Prof. Norafifah Ahmad, for her constant guidance, invaluable advice, suggestion and encouragement throughout my study in Universiti Utara Malaysia.

My special thanks will always be for the most important people in my life, my lovely family namely my father, Massad Alrawashdeh who has been selflessly devoting his life to my family and to the pursuit of excellence in knowledge for all his children. My ever-lasting indebtedness goes to the source of my happiness, my mother, who is simply the most wonderful, amazing woman and the greatest asset and treasure of my life. My constant remembrance to my sisters and my brothers.

There are many friends that left their heart prints on my heart. Thank you for your valuable suggestions and constructive comments. You all are very dear to me, especially Ammar, Basher, Hamdan, Loai, Khalid, Hazim, Raed, Hammam, Malik and Mahmoud. I wish you the best!

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LIST OF ABBREVIATIONS

Stock Return	SI
Price To Net Asset Value	PNAV
Net Asset Value	NAV
Kuala Lumpur Composite Index	KLCI
Price Earning	PE
Book To Market Ratio	BTM
Capital Asset Pricing Model	CAPM
Gross Domestic Product	GDP
United State	U.S
Risk Free	RF
Risk Market	RM
Beta	β
Average Return	AR
Book Value	BV
Market Value	MV
Johannes Burg Stock Exchange	JSE
Arbitrage Pricing Theory	APT
Modern Portfolio Theory	MPT
Cash Flow To Price	CFTP
Dividend Yield	DY

CHAPTER ONE

BACKGROUND

1.0 Introduction

Stock return consists of dividend and increases in price (capital gain). It is important to investors and business organization to know the company's stock value and investment returns. The decision whether to choose a particular stock is one of the most important implications for the stock price. A lot of models and techniques have been developed and used by investors to help them obtain better returns on their stock investment.

Capital Asset Pricing Model (CAPM) is the most influential and widely used one factor pricing model. The model estimates the expected return of a stock, given the return for a theoretical risk free asset, market return and the stock's sensitivity to the market risk. In other words, non diversifiable market risk is the only risk factor that is used in the model and it is sufficient to explain the risk-return trade-off with an efficient market portfolio. The model's success depends on whether or not any persistent excess return can be made without taking additional market risk through β 's

Capital asset pricing model is most practitioners' favorite when estimating expected return for an individual stock. CAPM developed by Sharpe (1964) and Linter (1965) was the first theoretical model that explains the non diversifiable market risk's impact on return. The model estimates the expected return of a stock. Non diversifiable

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