Abstract

The goal of this research is to investigate the power of following seven variables to predict stock returns on the New York Stock Exchange: price to earnings ratio (P/E), dividend yield (DY), debt to equity ratio (D/E), book to market ratio (B/M), return on assets (ROA), return on equity (ROE) and market capitalization (MC). Companies selected for the analysis are divided into five industries (airlines, computers and software, financial services, food and beverages, energy) which enables to observe the difference between the sectors as far as the statistical significance of regressors is concerned. The ability of six financial ratios and MC to forecast stock returns is examined between February 2010 and February 2020, whereas three investment horizons are considered: three months, one year, three years. Panel data regression models reveal different significant variables for each industry and show that the strength of the relationship between these regressors and expected stock returns increases with a longer investment horizon.