

# Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

<b>Student:</b>	<b>Michal Kolář</b>
<b>Advisor:</b>	<b>Evžen Kočenda</b>
<b>Title of the thesis:</b>	<b>Relationship between Stock Returns and Net Income: Evidence from U.S. Market</b>

## **OVERALL ASSESSMENT** (provided in English, Czech, or Slovak):

*Please provide your assessment of each of the following four categories. The minimum length of the report is 300 words.*

The thesis analyzes the relationship between net income and stock returns in the U.S. stock market. The thesis is nearly balanced in terms of the subject's introduction, review of the literature, methods, as well as the applied analysis. The empirical work itself is presented with numerous details. The language of the thesis is not perfect but it is easy to understand. The subject of the thesis is clearly defined.

### **Contribution**

The thesis brings a detailed evidence on the link between net income and stock returns among 25 large U.S. companies over a long period 1991-2016. In addition to the key subject of the thesis, additional factors with potentially explanatory power for stock returns were analyzed. Results based on panel regression show no significant link between net income and stock returns. On the other hand, the consumer sentiment index and the percentage change in book value per share were shown as the variables explaining movements in stock returns (while the debt to equity ratio and the nominal GDP growth rate were not). Results based on multiple linear regressions are inconclusive: large number of regressions produce significant links for most of the time span, however, during the last six years statistically significant links disappear. Company size is conjectured as a reason behind the insignificant results as stock prices of the large companies with relatively stable performance might reflect more the overall economic situation than individual performance. The thesis represents a solid treatment of the subject with a distinct value added.

### **Methods**

Methodologically two approaches are used, namely panel data model and multiple linear regressions. In this respect the two models from previously published research are employed. Still, rationale for the two approaches used could be more described. Quarterly data are fully described and well chosen, including a justification for the selection of the particular set of stocks. For the estimation stage, the discrimination between fixed and random effects models was tested for in favor of the heterogeneity. Further, the analysis accounts for the multicollinearity, heteroskedasticity, and latently accounts for structural breaks. Overall the methodology approach is fine, sufficiently motivated and executed.

### **Literature**

The literature is reviewed in some detail and covers the most relevant papers. The literature review is contained in section 2 and 3. Section 2 describes numerous issues relevant to the analysis and provides key references on those issues. In this section one source is relied upon in excess (Subramanyam, 2014). On the other hand, this usage is perfectly understood as it is a highly authoritative source in terms of the financial statement analysis. A typical literature review related to the link between stock returns and net income is contained in section 3 (Former studies); it is relatively short and contains the most influential papers. The empirical results should be complemented by some related evidence from relevant papers (already cited in the literature section) to position empirical results in a comparative perspective.

### **Manuscript form**

The manuscript conforms to formal requirements for the master thesis. The text reads well, albeit it is not written in flawless English and contains some typos and some less accurate sentence structures –

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yet, the text flows well and it is easy to understand. Introduction is clear and motivates well the researched topic. Some abbreviations are used without proper definition in the text. Some tables should be in better format. Table 1 is designed in less than reasonable way – the names of the companies should be stated in full with their tickers in parentheses. Figure 7 is not very illuminating.

In case of the successful defense, I recommend the grade “výborně” (excellent, 1), albeit at the bottom of the interval.

## **SUMMARY OF POINTS AWARDED** (for details, see below):

<b>CATEGORY</b>	<b>POINTS</b>
<i>Contribution</i> (max. 30 points)	26
<i>Methods</i> (max. 30 points)	25
<i>Literature</i> (max. 20 points)	15
<i>Manuscript Form</i> (max. 20 points)	15
<b>TOTAL POINTS</b> (max. 100 points)	<b>81</b>
<b>GRADE</b> (1 – 2 – 3 – 4)	<b>1</b>

**NAME OF THE REFEREE:** *Evžen Kočenda*

**DATE OF EVALUATION:** 31.5.2017



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**Referee Signature**

### **EXPLANATION OF CATEGORIES AND SCALE:**

**LITERATURE REVIEW:** *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong                  Average                  Weak  
20                          10                          0

**METHODS:** *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong                  Average                  Weak  
30                          15                          0

**CONTRIBUTION:** *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong                  Average                  Weak  
30                          15                          0

**MANUSCRIPT FORM:** *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong                  Average                  Weak  
20                          10                          0

### **Overall grading:**

TOTAL POINTS	GRADE		
81 – 100	<b>1</b>	= excellent	= výborně
61 – 80	<b>2</b>	= good	= velmi dobře
41 – 60	<b>3</b>	= satisfactory	= dobře
0 – 40	<b>4</b>	= fail	= nedoporučuji k obhajobě