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Does Valuation Ratios Matter while Selecting Stock for Investment ?[1]

NISHU GUPTA*
ITY PATNI**
SOMYA CHOUBEY***

Abstract

For creating an efficient portfolio, stock selection is a critical task. There are various factors which affect stock returns; hence investors must choose a stock very precisely. This research paper duly focuses upon valuation ratios which are precautionary considered as important by investors before investment. This study identifies that valuation ratios affect the stock return. For this purpose, NIFTY-50 annual data was taken from 2011-2021. Panel Data Regression has been employed to observe the impact of valuation ratios on stock return. Pooled OLS, Fixed Effect and Random Effect Tests have been performed. The Hausman Test was used for global model fit which signifies application of Fixed Effect Model. The results show that NCPS, CFPS, EVEB, SPPS, TBV had significant impact on Stock Returns (SR). It will bring an insight to the investors in selecting stocks. Ratios will provide undervaluation and over valuation signals which helps them in selecting stocks and decision making.

JEL Code : C80; G11; G12; G20
Keywords : Stock Return; Valuation; Ratios; Panel Data; Scrips; Investment; India

I. Introduction

STOCK SELECTION ALWAYS remains a central theme of research in finance. Various methods are available for selecting stock. To select stock for trading technical analysis used, whereas for long term fundamental analysis applied Moosa and Li (2011). For long term analysis, company's financial ratios are undertaken Yli-Olli and Virtanen (1989). Among company's financial ratios, valuation ratios help in selecting the stock by predicting the stock market movement Campbell (2000).

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* Assistant Professor (Senior Scale), Manipal University, Department of Business Administration, Dehmi Kala,, Near GVK Toll Plaza, Jaipur, Rajasthan, 303007, INDIA.
** Associate Professor, Manipal University, Department of Business Administration, Dehmi Kala,, Near GVK Toll Plaza, Jaipur, Rajasthan, 303007, INDIA.
*** Assistant Professor (Selection Grade), Manipal University, Department of Commerce, Dehmi Kala,, Near GVK Toll Plaza, Jaipur, Rajasthan, 303007, INDIA.

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