The Hunt For Thai Equity Returns Predictors

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Abstract

This study examines whether a set of well known equity return predictors in the US and European markets will also fare well as predictors in the Thai stock market. The predictors are drawn from accounting fundamental analysis and they include gross profit-to-assets, net income-to-assets, standardized unexpected earnings (SUE), asset-scaled accruals, and asset-scaled cash flows from operations. The test design uses Fama-Macbeth panel regression method and the portfolio-characteristics adjusted trading strategy hedge profits. The regression results indicate that asset-scaled accruals and asset-scaled cash flows from operations can significantly predict abnormal returns. Consistently, the trading strategies portfolio formed on these two predictive variables and also gross profit-to-assets predictor variable generate significant abnormal returns. For Thai stock market, the trading strategies portfolio based on asset-scaled cash flow from operations earned an average annual abnormal return of 22 percent. This magnitude is strongly statistically significant and this predictor can better predict and generate more profit from trading strategy than those of other predictor variables.

Keywords: Mispricing, Investment strategy, Accounting anomalies