Factors that Identify and Differentiate Between Extreme Performing Australian Stocks

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Ron Bird*
Sazali Abidin**
Danny Yeung*

* University of Technology Sydney Australia
** Waikato Management School

Abstract:
In a typical year, there is great disparity between the performances of stocks listed on the Australian Stock Exchange (ASX). The focus on this study is first to determine those factors that are best at identifying those stocks that realize extreme performance over the subsequent 12 months. Further, we attempt to find other variables that assist in identifying which of these potential high performers will perform extremely well and which will perform extremely poorly. This study will analyze both common factors and differencing factors that can assist in identifying extremely good performance stocks and extremely poor performance stocks. We use a two-stage approach in Beneish, Lee and Tarpley (2001) but with some modifications on the variables used. The variables being used in Beneish et al (2001) are divided into four (4) sections, namely firm characteristics, trading characteristics, market multiples, and fundamental variables. This study attempts to expand the market multiples to include Price Earnings Ratio (PE Ratio) and to expand the fundamental variables to include average collection period, dividend yield, and return on equity (ROE). In the first stage, the study estimates a model that is able to identify extreme performers relative to a control group. In the second stage, the study contrast extreme winners and extreme losers within the subset of predicted extreme performers.

Presenter: Dr Sazali Abidin
Email: SAZALI@waikato.ac.nz