
The financial ratio usage towards predicting stock returns in Malaysia

**Mohamad Jais, Shaharudin Jakpar* and
Tan Kia Puai Doris**

Faculty of Economics and Business,
University Malaysia,
Sarawak, 94300, Kota Samarahan, Sarawak, Malaysia
Fax: (60) 82-671794
E-mail: jmohamad@feb.unimas.my
E-mail: jshaharudin@feb.unimas.my
E-mail: doristankp@hotmail.com
*Corresponding author

Junaid M. Shaikh

Accounting Department,
School of Business,
Curtin University,
Sarawak Offshore Campus (Australian University),
Miri, 98009, Sarawak, Malaysia
E-mail: junaid.s@curtin.edu.my

Abstract: This paper examines whether a simple fundamental analysis strategy based on historical accounting information can predict stock returns. Construction and material sector are chosen in this study. Five common stock return predictor used in this study are price earning (PE), return of equity (ROE), debt to equity (DE), earning growth (EG) and price to net tangible asset (P/NTA). The results show that historical accounting signals are able to predict stock return. The mature group firm outperformed new and stable firm in predictive power. The finding reveals that nearly all return predictor have positive correlation with future stock return. Despite the down activity of the market over the sample period chosen, results reveal that fundamental accounting signals of winner portfolio that provide positive future return from a loser one generating a negative return still be able to generate positive return.

Keywords: financial ratio; predicting stock returns; future earnings; accounting signals; portfolio; Malaysia.

Reference to this paper should be made as follows: Jais, M., Jakpar, S., Doris, T.K.P. and Shaikh, J.M. (2012) 'The financial ratio usage towards predicting stock returns in Malaysia', *Int. J. Managerial and Financial Accounting*, Vol. 4, No. 4, pp.377–401.

Biographical notes: Mohamad Jais is a Senior Lecturer at the Faculty of Economics and Business, UNIMAS. He obtained his PhD in Finance from Osaka City University Japan in 2008. His research focused on dividend payout, share repurchases, IPO and corporate governance and has published in numerous journals including the *International Journal of Business and Society*, *Osaka City Business Review*, *Capital Market Review* and *Journal of Risk Finance*.