

**THE ROLE OF FINANCIAL RATIOS IN STOCK RETURN VALUATION: EVIDENCE FROM
MALAYSIA**

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ABSTRACT

This paper examined the role of financial ratios in stock return evaluation in Malaysia Stock return. In addition, in this study using 60 companies which are selected from Bursa Malaysia and derived from 5 industries exclude the non-financial sector and 12 companies from each industry. Financial ratios selected within this study are Debt to Equity (DER), Return on Asset (ROA), Dividend Yield (DY), Earning Yield (EY) and Return on Equity (ROE) and also Market Index (MI) as proxy for market. This study employs panel data analysis by applying fixed-effect model to estimate regression. In addition, this paper also using quantile regression to explain the relationship of financial ratios and stock return. This paper also have total of 4 model created from the financial ratios including the pooled model. Based on result, each model shows significant relationship towards stock return in Malaysia. Besides that, financial ratios such as DER, ROA, DY and the MI shows relationship with stock return from each models and based on pooled regression only DY have significant effect with stock return. Thus, this shows that DY has strong evidence of predictive power in Malaysia stock market. Meanwhile, quantile regression shows only model 2 and others are not following prospect theory.