



FORECASTING MALAYSIAN STOCK RETURNS  
WITH FINANCIAL RATIOS

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## ABSTRACT

This paper investigates whether financial ratios can assist in predicting the stock returns for the period from January 2010 to December 2015 in Malaysia stock market. Three financial ratios will be selected include book-to-market ratio (B/M), dividend yield (DY) and price-to-earnings ratio (P/E) which are known as the most effective tools on predicting the stock returns. The data consists of 25 listed companies in Bursa Malaysia will be used as a proxy for Malaysia stock market. The results confirmed that book-to-market ratio and dividend yield play a significant role in forecasting the potential stock market returns while price earnings ratio only plays a minor in the predicting stock returns. In addition, the results also reveal that book-to-market ratio has the higher predictive power than dividend yield and price earnings ratio respectively.

*Keywords: Financial ratio, Bursa Malaysia, Stock returns predictability, predictive power*