

on the American Stock Market: Can the EVA fundamental analysis increase the returns to a hedge-portfolio strategy with stocks sorted after book-to-market valuation.

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Economic Value Added^{Å®} applied on the American Stock Market: Can the EVA^{Å®} fundamental analysis increase the returns to a hedge-portfolio strategy with stocks sorted after book-to-market valuation and size?

▼ Bergman, Rickard

Uppsala University, Disciplinary Domain of Humanities and Social Sciences, Faculty of Social Sciences, Department of Business Studies.

▼ Gunnarsson, Philip

Uppsala University, Disciplinary Domain of Humanities and Social Sciences, Faculty of Social Sciences, Department of Business Studies.

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Abstract [en]

In this paper, the popular fundamental analysis model Economic Value Added is tested for any ability to generate returns above that explained by book-to-market effects on American large cap stocks. A zero net-investment hedge portfolio-test was undertaken where the Economic Value Added^{Å®} fundamental analysis was applied on a sample of large cap stocks, sorted into quintiles after book to market valuation. The portfolio investing in the extreme quintiles gained positive returns between the years 1999 – 2010 equal to an average yearly total return of 7,32 %. During the test-period, the benchmark portfolio constituent of stocks sorted in

the same way but without the Economic Value Added^{Â®} analysis only managed to score returns equaling 2,3 %, adding evidence in favor of the Economic Value Added^{Â®} analysis. The Economic Value Added also showed a better risk-profile than the benchmark portfolio, measured as the Modigliani Risk-Adjusted Performance over the entire period, further acknowledging the abnormal returns. However, the Economic Value Added^{Â®} sample portfolios were unevenly distributed regarding number of stocks, foremost in the short-sold part for some years, mitigating the test as strong evidence in favor of the Economic Value Added^{Â®} analysis. An independent samples t-test also did not reject the null hypothesis. Despite the mixed results of the test, the strength in the specification of sample and choice of method leads us to conclude that that the Economic Value Added^{Â®} seems like a moderately effective tool for identifying mispriced stocks.

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Supervisors

► Novak, Jiri, PhD

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