

Effect of fundamental and stock market variables on equity return in Pakistan

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Key Words

CAPM, three factor model, discretionary accrual, volatility, equity return

Abstract

This study identifies the significant determinants of equity returns in Pakistan by using an unbalanced panel data of 394 non-financial firms, listed in Karachi Stock Exchange over the period 1998-2009. The results provide support to the standard Capital Asset Pricing model (CAPM) and suggest that equity returns respond to market premium. The failure of three factor model is also reported as book to market has a significant negative effect on return. Discretionary accrual is the only earning component which has a significant positive effect, suggesting that managers manipulate earnings to cater the stock prices. The volatility, measured by standard deviation of daily stock prices has a positive effect. The investors in Pakistan are risk taker and benefit from capital gain.