

# THE PERFORMANCE OF MALAYSIA COMMON STOCK IN RELATION TO THEIR PRICE EARNING RATIO AND MARKET VALUE

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## ABSTRACT

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Price-earning ratio effect and firm size effect have been discovered by Banz and Basu in 1981 and 1977 respectively. Consequently, both of these effects have been widely studied by financial analysis in markets all over the world including KLSE. The study conducted by Ong Yew Jin (1990) had confirmed the existence of a week price-earning ratio effect in KLSE. At the same time, he also found the significant existence of firm size effect in local stock exchange.

This study has been conducted with the purpose of extending Ong Yew Jin's study to generally reconfirm the existence of price-earning ratio effect and firm size returns. In conducting this study, the methods of portfolio formation has been employed and such indexes as Jensen Index, Sharpe Index and Trynor Index have been utilized to evaluate the performance of the portfolios.

The results of this study, covering the period of 1990 to 1999, have conducted the existence of price-earning ratio effect and firm size effect in our local stock exchange