

Value Investment Strategy under Stock Market Conditions

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Abstract

This study examines the value premium using data from the Colombo Stock Exchange (CSE) within the time period of 1995-2009. The study employed Earnings to Price (E/P) ratio to form value and growth portfolios. The primary reason for selecting CSE for the study is the lack of research on value investment strategies in CSE. The study documents a consistently strong value premium irrespective of the frequency of portfolio rebalancing. At the same time value stocks outperform their counterpart up market as well as down-market. The findings of the study suggest that investors can buy value stocks which have high E/P ratios and hold those stocks in the long term to have a better investment performance than investing in growth stocks with low E/P ratios.

Keywords: Value stocks, Growth stocks, Value premium, Earnings to price, Colombo Stock Exchange

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