



Forecasting, valuation and portfolio returns of stock market evolution: problems, paradoxes and efficient information. Worldwide implications and Romanian evidence



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FORECASTING, VALUATION AND PORTFOLIO RETURNS OF STOCK MARKET EVOLUTION: PROBLEMS, PARADOXES AND EFFICIENT INFORMATION. WORLDWIDE IMPLICATIONS AND ROMANIAN EVIDENCE

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Abstract

The purpose of this paper is to make a quantitative and qualitative critical analyse regarding the three important aspects of stock market evolution. First, forecasting problems are presented and analyse in order to establish the main problems and the potential solutions. Second, the valuation problems are tackled in order to observe different trends and directions of solving these issues. Third, the portfolio return forecasts are mandatory in order to establish the results of the titles/market evolutions. The methods used in our research reveal the importance of adopting some important econometric tools in order to test the robustness of different main theories of the stock market and some important practices used among investors. The scope of the research was to give a *quid pro quo* in order to confer potential solutions regarding problems, paradoxes and efficient information of the stock market. The empirical results reveal that besides the critical side of the theories this paper sets a basis for a new eclectic approach regarding the probabilities that a title achieves certain values within a reasonable time frame. The main conclusion of this article suggests that the current theories register some gaps regarding the adherence into stock markets' realities.

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Keyword : [stock markets](#), [market forecast](#), [business valuation](#), [modern portfolio theory](#), [technical analysis](#), [betting](#)

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Third, the portfolio return forecasts are mandatory in order to establish the results of the titles/market evolutions. The methods used in our research reveal the importance of adopting some important econometric tools in order to test the robustness of different main theories of the stock market and some important practices used among investors. The scope of the research was to give a quid pro quo in order to confer potential solutions regarding problems, paradoxes and efficient information of the stock market. The empirical results reveal that besides the critical side of the theories this p Changes in stock returns arise from changes in expected future cash flow growth and expected future discount rates. However, which variables proxy for those cha. Keywords: Stock Returns, Predictability, Forecasting, Combinations. JEL Classification: C22, G12. Suggested Citation: Suggested Citation. McMillan, David G., Which Variables Predict and Forecast Stock Market Returns? (June 28, 2016). Available at SSRN: <https://ssrn.com/abstract=2801670> or <http://dx.doi.org/10.2139/ssrn.2801670>. Capital Markets: Asset Pricing & Valuation eJournal. Subscribe to this fee journal for more curated articles on this topic. FOLLOWERS. Forecasting stock market returns is one of the most effective tools for risk management and portfolio diversification. There are several forecasting techniques in the literature for obtaining accurate forecasts for investment decision making. Numerous empirical studies have employed such methods to investigate the returns of different individual stock indices. Though there are various techniques for forecasting stock market returns, no single method can be employed uniformly for the returns of all stock markets. The literature indicates that there is no consensus among researchers regarding the techniques for forecasting stock market returns. Portfolio Analysis and Market Equilibrium. 15. corporation is assumed to be able to borrow or lend at the same risk-free rate as the individual investor. Represent the rate of return of a portfolio or risky asset by the random variable R . From assumption (2), the expected rate of return, $E(R)$, and the standard deviation, $\sigma(R)$, of portfolios are the objects of choice; this leads to the formation, by each individual investor, of an efficient set of risky portfolios according to the principles, provided by Markowitz [16, 171. Otherwise, the equilibrium risk-rate of return relationship presented in Section 11 will not be altered.13. Consideration of the firm's financing decision requires only the modification of equations (2)) (3a), and (4a) to take into account the corporate tax This paper focuses on the relation between stock returns, inflation and monetary policy. The working hypothesis is that the market interprets inflation differently according to a latent variable that captures the effects of shifts in the stance and the credibility of monetary policy, as well as those of changes in the institutional framework in which the central bank operates. Financial markets react differently to inflation news, depending on the monetary policy regime they perceive to be the prevailing one. The analysis focuses on the inflation information contained in stock returns, and does not address the issue of the possible effects of equity prices on real activity.2.