

Value investing in the Finnish stock market

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Abstract:

OBJECTIVES OF THE STUDY

The purpose of the thesis is to study a value investing method (i.e. Magic Formula) in the Finnish market. The aim is to find out, if the stocks that are ranked and chosen by this method actually have higher returns in the future than stocks on average. The main objective is to compare the returns of the value portfolios to benchmark index and to see if it can be outperformed. There are five other objectives that will be studied. First, is there a difference between the returns of top ranked stocks and the bottom ranked stocks. Second, what is the optimal holding period for the portfolio, and third, how many stocks should be chosen to maximize the returns. Fourth objective is to compare the volatility and the returns of the portfolios to market portfolio. Last objective is to study whether something is gained if one more factor is added to portfolio ranking.

DATA

The data for this study consists of 50 to 124 companies, depending on the quarter, listed in Helsinki Stock Exchange between 2000 and 2009. Quarterly report and market data of 40 periods have been used to form two key ratios that are the basis for the stock ranking. All the other sectors except banking are included into the study, and companies are limited so that the minimum market capitalization is ten million. Also the companies that have delisted during the time period or have listed in the middle of the period are included.

FINDINGS

The findings of this research prove that value premium does exist and the benchmark index can be outperformed. This confirms the results of previous literature. Unlike some other studies suggested, larger portfolios did not necessarily provide higher or more constant returns. In this study, the small portfolios that were based on Magic Formula performed better in shorter holding periods but as composite measure of Magic Formula and Price-to-Book was used, larger portfolios were better. The higher returns of value portfolios are often validated with increased risk. Based on this research the volatility was lower among value portfolios than it was for the index.

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Value stocks are stocks that are currently trading at a price lower than their actual intrinsic price. It basically means that the stocks are undervalued. Hence, when investors specifically invest in value stocks to profit out of an undervalued stock in the market, it is referred to as value investing. The investment strategy is primarily based on the idea of "buy low, sell high." Investing in value stocks is a highly sought-after investment strategy. Investing: A Beginner's Guide CFI's Investing for Beginners guide will teach you the basics of investing and how to get started. Learn about different strategies and techniques for trading, and about the different financial markets that you can invest in.. The OMX HEX25 Index is a major stock market index which tracks the performance of the 25 most heavily traded companies in the Helsinki Stock Exchange. Limiting each company to a maximum weight of 10%, the OMX HEX25 Index is a benchmark for the Finnish Stock Market. Related. Finnish Jobless Rate Rises to 7.6% in September. Finnish Economy Shrinks for 6th Month. Finnish Inflation Rate Stays at 0.2% in September. Finland Current Account Surplus Narrows. Finnish Trade Gap Narrows in August. Finnish Consumer Morale Weakest in 4 Months. Finnish Economy Shrinks 4.5% QoQ in Q2. Finnish Producer Prices 9. Invest in Yourself. Investing into Stock Market Alternatives. Michael Gardon | August 13, 2020. I often get asked by people, "What are some good alternatives to investing in the stock market?" As a former financial derivatives trader who was in the market 24/7 through the "Great Recession", I uniquely understand the ups and downs of public markets. Well that market is blowing up right now. Like other forms of art or memorabilia, sports cards have appreciated in value for a long time as people look to put their money into things that are rare and valuable. A LeBron James rookie card recently sold for \$1.8 million! Look at this price chart of one of the rarest cards on earth, a mint Honus Wagner. Sport card values are for real.