|  |
| --- |
| Analysis ReportAdjusted P/E and Stock Return(03/21/2009 ~ 03/20/2010)Questions about this report should be directed to kim813@illinois.edu / hjkim@alumni.utoronto.ca Phone: (217) 778 – 3616401 East Chalmers St. #321Champaign IL 61820 USA\*Copyright 2009 By Hyun Jun KimAll Rights Reserved |

By Hyun Jun Kim, kim813@illinois.edu, (217) 778-3616

**The Purpose of Research**

This research is intended to find out the relationship between adjusted P/E ratio and one-year stock return from 03/21/2009 to 03/20/2010. The adjusted P/E was defined as follows:

Adjusted P/E = $\frac{Market Capitalization on 03/21/2009}{3 year avg net income + 3 yr avg depreciation – 3 yr avg CapEx}$

Note: 3 year avg used in the denominator are from 03/21/2006 to 03/21/2009.

**Question: “What happened if you had bought stocks in the US exchange on 03/21/2009 based on the adjusted P/E?”**

**Screening Method**

Step 1: Companies in major US Exchanges

Step 2: Three year average number for the following items from 03/21/2006 to 03/21/2009

 Only companies with:

- Only Positive average earnings

 - Total Depreciation & Amortization expense greater than zero

 - Market Capitalization on 03/21/2009 greater than zero

Step 3: Derived 1,731 companies

**Result (03/21/2009 to 03/20/2010 return)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Adj. P/E Ranking** | **Avg Return by P/E** | **Small** | **Medium** | **Large** |
| **1 (Low 10%)** | **196.78%** | **181.12%** | **244.01%** | **165.22%** |
| **2** | **110.88%** | **123.35%** | **112.89%** | **96.60%** |
| **3** | **110.58%** | **109.74%** | **104.25%** | **117.73%** |
| **4** | **97.42%** | **92.69%** | **120.29%** | **79.19%** |
| **5** | **89.55%** | **95.41%** | **97.06%** | **76.29%** |
| **6** | **67.95%** | **59.88%** | **75.59%** | **68.25%** |
| **7** | **55.20%** | **58.56%** | **57.04%** | **50.05%** |
| **8** | **59.46%** | **60.32%** | **66.97%** | **51.12%** |
| **9** | **53.07%** | **58.24%** | **52.41%** | **48.66%** |
| **10 (High 10%)** | **53.88%** | **61.40%** | **66.08%** | **34.30%** |
|  | **Avg Retun by Size** | **108.74%** | **93.89%** | **65.99%** |

**Conclusion**

The low adjusted P/E stocks generated superior returns than those with high adjusted P/E during the tested period, regardless of size. Graphical result is shown on the next page.

By Hyun Jun Kim, kim813@illinois.edu, (217) 778-3616

**Annual Return by P/E**

**Annual Return by P/E and Size**