

**INVESTIGATION OF THE RELATIONSHIP BETWEEN
VALUATION RATIOS AND STOCK RETURN OF
LISTED COMPANIES IN COLOMBO STOCK
EXCHANGE**

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ABSTRACT

The aim of this paper is to investigate the relationship between valuation ratios and stock return of listed Companies in Colombo Stock Exchange. Valuation ratios include Dividend Yield, Dividend Payout and Earning Yield are considered to investigate the relationship. Additionally the relationship between Earning Yield and Dividend Yield were investigated. Data were collected from a sample of 25 companies at the Colombo Stock Exchange. The time frame is the period of 2006 to 2010 and Descriptive, Correlation and Regression analysis were implemented to analyze the data.

According to correlation analysis, researcher found that there is a negative relationship between valuation ratios and stock return in CSE. According to the results of the regression analysis, the researcher found that there is a small impact of the selected ratios with the stock return. However, there was always negative effect of dividend yield on the stock return. It was revealed that the Dividend Payout and earning yield are the most relatively important earnings ratio for the investors of the Colombo Stock Exchange. In addition, there was a strong positive relationship between earning yield and the dividend yield of the selected companies.

This type of research will helpful for the investors to make their effective and efficient economic decisions.