

ABSTRACT

The Capital Asset Pricing Model (CAPM) is a widely known model by most investors because it gives a precise prediction of the relationship between the risk of an asset and its expected return by using beta as a measure of risk. However, there are many empirical evidences against the CAPM model. Fama and French (1992) state that it is not the beta that explains the stock returns but rather firm size, leverage, book-to-market equity and earnings yield.

Following Fama and French (1992), this study investigated how beta, firm size, leverage, book-to-market equity and earnings yield, sometimes called earnings-price ratios (E/P), affect the stock returns.

This study used cross-sectional and time series data of the Stock Exchange of Thailand (SET) from 1992 to 1999. All data were collected from SET database and I-Sims CD. It includes 451 listed companies during this period.

The result of the study indicates that only earnings yield is significant in explaining the stock returns. It has positive relationship with the stock returns. The remaining four variables, including beta, firm size, leverage and book-to-market equity are excluded from the model. They had no significant relationship with the stock returns and therefore do not explain the variation in the dependent variable.

Other important variables influencing the stock returns which were ignored from this study, should be taken into consideration for further studies.