

# Value versus growth: Australian evidence

Philip Gharghori, Sebastian Strykowski  
and Madhu Veeraraghavan

Department of Accounting and Finance  
Monash University

# Introduction

- Value versus Glamour
- Proxy – B/M
- Why?
  - In part, due to Fama and French
- Other proxies
  - E/P, C/P and S/P

# Introduction

- Issue with E/P, C/P and S/P
- Earnings and cashflows can be negative
- Sales can be zero
- So to can book value, but for a much smaller proportion of the sample

# Research Questions

- Is there a value/glamour effect in Australia?
  - B/M – Yes
  - But, what about the other proxies
- Which is the superior proxy for value/glamour?

# Literature Review

- Chan et al. (1991) – Japan
  - B/M, E/P, C/P and Size
- Lakonishok et al. (1994) – US
  - B/M, E/P, C/P and Past sales growth
- Barbee et al. (1996) – US
  - B/M, S/P, D/E and Size
- Cai (1997) – Japan
  - B/M, E/P, C/P and Sales rank
- Leledakis and Davidson (2001) – UK
  - B/M, S/P, D/E and Size

# Literature Review

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  - B/M, **S/P**, D/E and Size

# Data

- CRIF database
  - Share price data
- Aspect Huntley
  - Accounting data
  - Cash flow statement – 1992
- Test period is 1993 – 2004
- $\approx$  137,000 firm-month observations

# Methodology

- Portfolio returns analysis
- Fama-MacBeth regression analysis



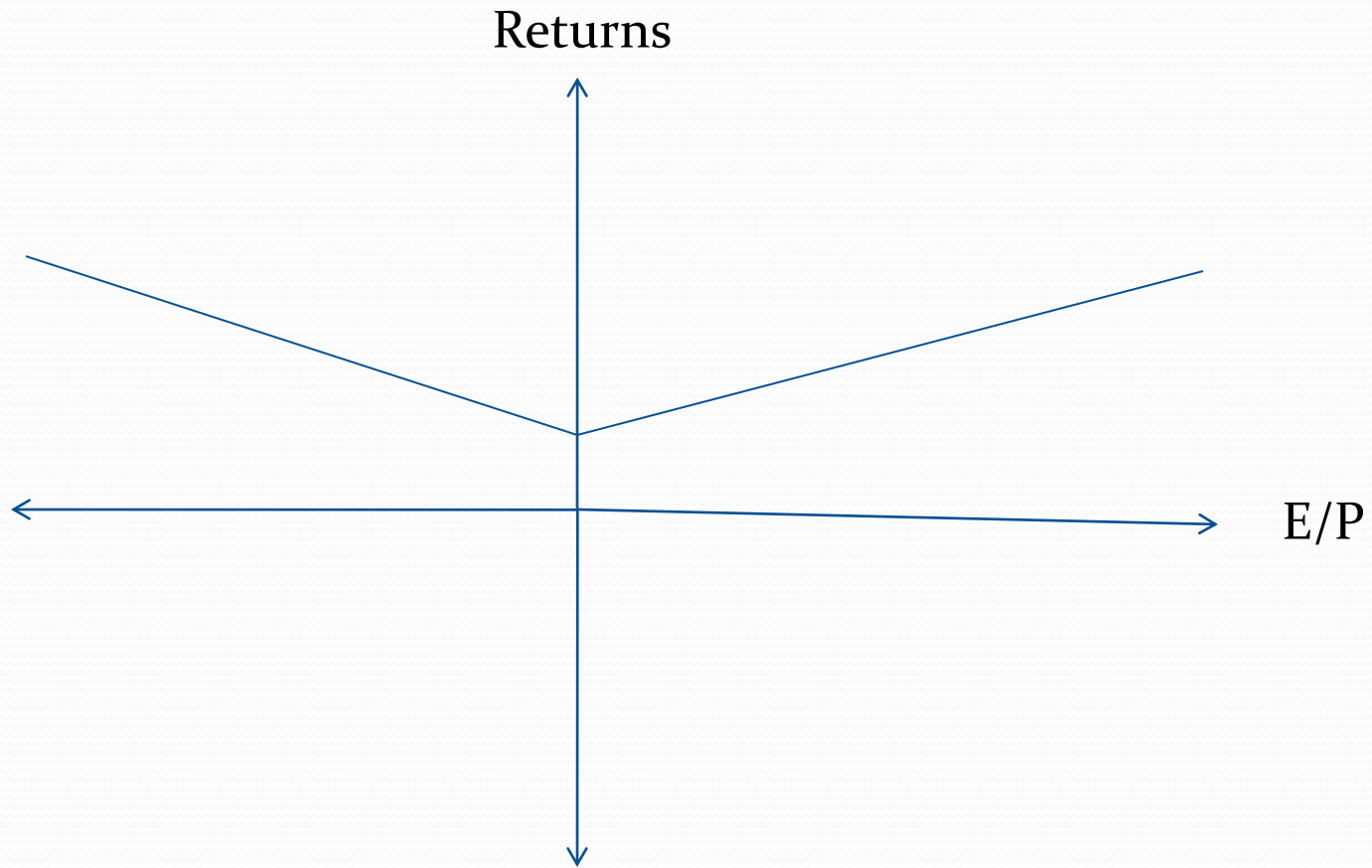
# Methodology

Returns



E/P

# Methodology



# Portfolio returns analysis

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	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
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B/M

S/P

D/E

SIZE

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# Portfolio returns analysis

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	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
B/M	0.96	1.19	1.01	1.15	1.27	1.50	1.35	1.86	2.35	3.75
S/P	0.51	1.04	0.96	0.92	1.19	1.45	1.38	1.50	1.63	2.74
D/E	1.26	1.40	2.02	1.34	1.45	1.44	1.49	1.50	1.72	2.62
SIZE	6.78	2.24	0.65	0.90	0.54	0.85	0.72	1.00	1.17	1.10

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# Portfolio returns analysis

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	Q1	Q2	Q3	Q4	Q5	Q1	Q2	Q3	Q4	Q5
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E/P –

E/P +

C/P –

C/P +

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# Portfolio returns analysis

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	Q1	Q2	Q3	Q4	Q5	Q1	Q2	Q3	Q4	Q5
E/P –	3.57	2.02	1.53	0.98	0.46					
E/P +						0.89	1.18	1.24	1.60	2.67
C/P –	3.32	2.20	1.19	1.08	0.94					
C/P +						0.99	1.18	1.19	1.71	2.71

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# Fama-MacBeth regressions

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	Const	Variable	E/P+	E/P-	C/P+	C/P-
B/M						
S/P						
E/P						
C/P						
D/E						
SIZE						

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# Fama-MacBeth regressions

	Const	Variable	E/P+	E/P-	C/P+	C/P-
B/M	-0.0041 (-1.03)	0.0007 (4.19)				
S/P	-0.0029 (-0.70)	0.0006 (5.87)				
E/P	-0.0040 (-0.98)		0.0074 (4.00)	-0.0071 (-5.74)		
C/P	-0.0018 (-0.45)				0.0038 (6.70)	-0.0075 (-10.66)
D/E	-0.0021 (-0.51)	0.0007 (9.52)				
SIZE	-0.0192 (-1.03)	0.0010 (1.09)				



# Fama-MacBeth regressions

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	Const	Variable
E/P +	0.0066 (2.40)	0.0053 (3.83)
C/P +	0.0052 (1.91)	0.0037 (4.10)
E/P -	-0.0188 (-3.08)	-0.0091 (-9.77)
C/P -	-0.0178 (-2.91)	-0.0086 (-11.97)

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# Fama-MacBeth regressions

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*Panel A: Full sample*

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	Const	B/M	S/P	E/P+	E/P-	C/P+	C/P-	D/E	SIZE
B/M, S/P, E/P, C/P	-0.0060 (-1.45)	0.0014 (2.04)	0.0005 (2.14)	0.0283 (4.59)	-0.0003 (-0.12)	0.0100 (3.29)	-0.0003 (-0.27)		
ALL	-0.0337 (-1.88)	0.0025 (3.41)	0.0006 (2.36)	0.0298 (5.24)	-0.0009 (-0.41)	0.0107 (3.44)	-0.0008 (-0.44)	-0.0003 (-0.99)	0.0013 (1.63)

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# Fama-MacBeth regressions

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## *Panel B: Positive E/P*

	Const	B/M	S/P	E/P+	E/P-	C/P+	C/P-	D/E	SIZE
B/M, S/P, E/P, C/P	0.0049 (1.74)	-0.0001 (-0.18)	0.0000 (0.21)	0.0103 (2.08)		0.0155 (4.08)			
ALL	-0.0074 (-0.61)	-0.0001 (-0.20)	0.0001 (0.73)	0.0084 (1.63)		0.0146 (3.79)		0.0001 (0.25)	0.0005 (0.93)

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## *Panel C: Negative E/P*

	Const	B/M	S/P	E/P+	E/P-	C/P+	C/P-	D/E	SIZE
B/M, S/P, E/P, C/P	-0.0250 (-4.03)	0.0069 (6.02)	0.0003 (0.67)		-0.0020 (-0.98)		-0.0010 (-1.07)		
ALL	0.0880 (3.72)	0.0060 (5.18)	0.0006 (1.43)		-0.0011 (-0.43)		0.0021 (0.75)	-0.0004 (-0.54)	-0.0066 (-5.43)

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# Conclusions

1. Strong value/glamour effect in Australia
  - All four proxies are individually significant
2. On balance, B/M is the superior proxy
  - B/M is positive for 95% of the sample
  - Supports Fama-French model
3. Nuances based on whether earnings are positive or negative
  - Show how negative E/P (C/P) can be analysed
  - Findings consistent with a value-glamour effect in negative earnings firms