

Abstract

This paper focuses on using historical financial ratios to form stock portfolios that would outperform the SET returns during 2002 to 2005. Each observation is assigned binary score based on its six major financial ratios for the most recent year and changes from the previous year. In addition, total observations are divided by price-to-book ratio and market capitalization in order to explore which group is the most appropriate for the proposed strategy. The market-adjusted return is quantified one day after earning announcement date of each observation. The results show that this short-term strategy can provide significant positive market-adjusted returns and the returns can be increased if it is applied to high price-to-book ratio with small market capitalization stocks.