The Valuation Models Based on Historical Accounting Data

A Test of Ohlson (1995) Model : A Study in Thailand

ABSTRACT

Finding intrinsic value of firms is important for making decision since there are many techniques to forecast. The Ohlson's model and its developments are interesting in various researches. The linear information dynamics tries to identify the link between current information and future abnormal earnings. Ota (2002)'s model is very interesting because his work is ignore and adjust the information a part from abnormal earnings υ_t by correcting serial correlation in the error term. This paper investigates the validity of the Ohlson's information dynamics (Linear Information Model: LIM) and attempts to improve the Linear Information Model (LIM) by following the functional form of Ota (2002)'s concept for Thailand data.

However, as the data was the time series, the researcher applied the ARIMA process for these autoregressive models. The results presented the Feltham and Ohlson (1995)'s model which increase book value of equity, b_t ,as an explanatory variable show the improvement with the more predictive ability of future stock returns. However, the model that assumes other information as a constant does not show the validity by the explanatory power of contemporaneous stock prices, while the Ohlson (1995) shows the most validity by comparing the explanatory power of contemporaneous stock prices. Finally, among the competitive models based on the predictive ability of future stock returns, as well as the explanatory power of contemporaneous stock prices, the researcher supported the valuation model that follows the Feltham and Ohlson (1995) valuing the firm by book value per share of equity and earning per share altogether but ignore other information. Finally, it should be noted that this study may have limitation for small sample bias according to the maximum likelihood by Autoregressive Integrated Moving Average (ARIMA) process.