CHAPTER 5: CONCLUSION

5.1 Introduction

The following reading was directed in order to govern the impression of equity multiples on stock volatility and stock returns. The previous chapters had covered the introductory section of the study, in depth review of existing literature, methodology for collecting relevant data and separate section for findings and analysis. High attention had been given by the analysts and researchers for studying stock returns and stock volatility. There are various factors that are accounted by the investors when making the decision for investments which mainly consists of stock return and stock volatility. The first chapter had been focused mainly on providing the rationale and significance of the study laterally with the objectives. The goals of the study was to understanding the concept of equity multiples, stock returns and volatility. However, the main purpose of the study that had been focused was to analyse the influence of equity multiples on stock returns and volatility in Pakistan stock exchange.

The concepts of the equity multiples, stock returns and stock volatility had been explained in the second chapter in which it had been identified that equity multiples is a financial metric that is used to determine the value of investments over the time period. The shareholders use this particular metric for creating investment choices say to hold off the share or trade it. Therefore, the following study had been mainly based towards analysing the effect of equity multiples on the stock returns and stock volatility. The country that had been selected to be analysed is Pakistan; therefore, the listed Pakistani companies had been selected to analyse.

The last chapter focuses on brief summary of the finding of the study along with set of recommendations and conclusion. 46 listed Pakistani companies for selected and correlation and regression tests were applied on E-views. Stock return and volatility of stock are the two dependent variables and independent variables were firm performance, equity multiples and industry growth. The following chapter provides short summary of the results of the study below and overall conclusion of the dissertation.

5.2 Summary of findings

As highlighted above, the study had been primarily conducted towards analysing the impact of equity multiples towards the stock returns and volatility in which the listed companies of Pakistan had been analysed. The data that had been obtained from the listed companies comprises of the equity multiples, firm performance, stock volatilty and stock returns. On the other hand, the external factor had also been considered which the industry growth rate is. Once all the data had been acquired, the statistical techniques had been used for analysing the data and interpreting the outcomes. The gears that had been used for the analysis consists of descriptive, correlation and panel data regression analysis. The analysis had been conducted on the fourth chapter of the study which had been further analysed in this section.

On the foundation of the above findings and analysis, the outcomes of the correlation analysis that had been primary conducted to analyse the association of the variables. It was determined that stock volatility does not have a strong relationship with the return, firm performance and industry growth. The results of the correlation analysis had highlighted that the factor stock volatility had negative and weak association with equity multiples due to coefficient being -0.04. Moreover, stock return had been found to have weak association with the firm performance, industry growth and stock volatility. On the other hand, stock volatility had weak but a positive relation with financial performance and industry growth but stock volatility had negative relationship with equity multiples. This shows that not all variables had significant relationship with each other. The literature review taken into consideration for examining the concepts and relationships between variables had revealed that equity multiples and stock return have a positive relationship (Easley and O'Hara, 2010). Furthermore, the literature review had revealed that risk investors play a key role in making investments but they work in accordance with the probability of returns. However, some of the investors still, do not take risk due to less budget for making huge investment.

In addition to this, it was also determined from the panel data regression that the connection between all the variables was not noteworthy. The panel data regression analysis had been conducted through using two effect model which are fixed effect model and random effect model. In the fixed effect model, the variables had also been considered as fixed whereas in the random effect model, the variables of the study had been considered random for determining the effect of equity multiples on stock volatility and stock returns. The regression analysis was conducted so that the relationship or the association between the selected variables can be determined. Since, there were two dependent variables therefore; the regression analysis was conducted twice. Based on it, the first variable selected was stock returns. The panel data that had been considered for analysing the regression analysis was the random effect model based on the hausman testing. The results clearly indicate and reveal that the value of significance in the table shown is above 0.05 hence, it shows that the independent variable does not have any impact on stock return. On the other hand, the significance value of industry growth is less than 5% hence; it has significant relation with stock returns. The fluctuations in stock returns or the variability in the stock amounts is also affected by industry growth. The literature also supports these findings.

Furthermore, the researcher had undertaken the next variable as stock volatility. This was the second dependent variable which was tested with other variables through regression analysis.

The panel data that had been considered for analysing the regression analysis was the random effect model which is based on the hausman testing. On the basis of the results obtained, it was determined that equity multiplier and firm performance are not meaningfully related with stock volatility. Instead, with 0.0001 of significance value, industry growth is considered as significant. Like stock returns, stock volatility is also affected by industry growth. The overall model of regression was considered as significant.

Based on the discoveries of the study and the existing literature that is directed in similar domain, the researcher had successfully undertaken the data from the 46 companies registered in stock exchange to effectively attain the goal and objectives of study. Despite of the fact that various studies conducted in this domain have found similar results but at the same time, some of the researchers were found contradicting with findings. This is so because the industry selected or the turnover of company also matters. The investment decisions taken by companies are based on various external factors. Out of these factors, one of the most prominent factors is risk. The literature has laid emphasis that investment decisions related to stocks should be made by calculating the risk amount. It is because the risk calculated prevents the investors from making wrong decisions and designing wrong investment portfolio. It is strongly recommended that diverse portfolio should be designed by the investors so that if any of the stocks become less volatile so they have a chance to improve.

Furthermore, apart from the above findings, the researcher had initially designed set of research objectives and questions. The research objectives were based on determining concept of stock volatility, stock returns and equity multipliers. Secondly, the most important objective was to determine their relationship. Thus, the researcher had used E-views for generating the results along with correlation and regression. The outcomes of the study were totally aligned with the ideas and research questionnaire. The research findings clearly indicate the scenario of the Pakistani firms and the recommendations given below need to be adopted for improvement in future. It is essential for investors and policymakers.

5.3 Recommendations

Following are the established recommendations that can be offered to investors or other policymakers:

- On the basis of the above discoveries of the study, it has been recommended that investors should take into consideration the overall sales growth before making any investments. The reason that the shareholders should consider on analysing the sales growth and company's performance is highlighted in the study of Christensen and Zhu (2010) that the financial and non-financial performance affects the returns of the company. The shareholders are highly interested towards investing in the companies that has high sales growth and also has competitive edge. The investments made by the shareholders also results in increasing the share price that overall improves the share return.
- It is necessary to note that a risk averse investor should not make investment in companies with higher sales growth because of the level of volatility which will be higher. Similarly, the study conducted by Easley and O'hara (2010) had highlighted that the risk averse investors are not willing to take risk for higher returns as they are highly interested in receiving average returns at a regular income. The companies that have higher sales growth may have high level of volatility on its share prices which may result

in increasing the risk of the investment. Thus, it has been suggested to the risk averse investor to avoid investing in companies that has high volatility in its sales.

- Investors should calculate risk before proceeding and it is recommended that they should not always rely on IRR or equity multiple for taking decisions regarding risk and investments. Similarly, the study conducted Aroni (2011) had depicted that there are multiple ways of findings value of the stock which consists of contingent claim, discounted cash flow, and relative valuation. Therefore, these methods can also be adopted by the investor for measuring the value of the firm.
- It is also recommended that the investors should diverse their portfolio of investments and should not restrict to any one because if any of the stock becomes volatile so, investors have the option to switch on to another.
- It is also recommended that factors affecting stock returns should be taken into attention such as oil worth fluctuations, exchange rate and foreign direct investments made.

5.4 Implications of the study

The study had been primarily focused towards discovering the impression of equity multiples on the stock yield and volatility. This research had targeted the shareholders, investors, management and analysts for determining as what factor influences on the stock return and volatility. As highlighted above, the study had been analysed by focusing in the context of Pakistan where 46 listed Pakistani companies in PSX had been analysed for evaluating the impact of equity multiples on the stock return and volatility. The results had shown that the equity multiples does not have an effect on the stock returns and volatility. In contrast, the results show that the industry growth highly influences on the stock return and volatility. Therefore, the management, analysts and shareholders should consider the industry growth as an imperative reason towards the return on stock and volatility.

The other implications for the management and investors is that they should consider other factors that had been highlighted in the literature which consists of the company's financial and non-financial performance, interest rate, inflation rate, FDI and exchange rate. These factors are highly associated with the stock return as highlighted in the literature. Thus, investigating these certain factors may help the management, investors and shareholders in determining the reasons for the change of stock returns and its volatility.

5.5 Future implications of the study

Implications of the study are described as the ways to improve the study. These implications are important for the manager as well as the investors. Also, those who wish to conduct study in similar domain can consider this study as their base. Firstly, the researcher had taken sample size of 46 listed companies of Pakistan stock exchange but to mark the study more legal and dependable; the size of sample should be increased upto 100. Secondly, the researcher can do comparative study. In the literature, there are few studies where comparison are done therefore, this revision can be further upgraded by gathering the data from some other stock exchange. Both the studies can be compared in terms of the investor decisions, risk and stock volatility.

However, apart from this, this study can also be improved through qualitative measures. This can be done by collecting primary data from interviews and analysing it through thematic analysis. The researcher will find out views, opinions and ideas of the investors and managers of firms and the strategies they use in creating portfolios. Also, systematic analysis can be done along with thematic and recently published journals and articles can be used for critical analysis and evaluation.

5.6 Conclusion

In a nutshell, it can be stated that investigator had fruitfully attained the aim and purposes of the study. The main variables in this study were stock returns, stock volatility and equity multipliers. Correlation and regression were applied on E-views. The results had revealed that effect of equity multipliers on stock volatility was not significant whereas effect of equity multipliers on stock returns was also not significant. Furthermore, this study was conducted in the domain of Pakistan and the companies selected belonged from Pakistan stock exchange therefore, the economic and political environment can also have influence over the results obtained in terms of investments and risk. The total companies that had been selected to be analysed are around 46 listed Pakistani companies that are listed on PSX. The study has provided with the major points of the assessment that has provided with the statements and arguments of different authors that has created the assessment of Equity Multiples on Stock Returns and Volatility. The investigation has concluded that equity multiple is usually used to compare the cash which an investor has put in an investment to the cash generated by the investment over a given time period. It has also been assessed that Stock return refers to the return received by shareholders of a company over their purchase stock (Al-Shubiri, 2010).

An organisation may earn high return on equity however; shareholders may still suffer in case market value of stock reduces over the period. Based on the arguments of different authors it has been assessed that if market price of shares decrease, shareholders have to face the loss. It is responsibility of the company to provide positive returns to its shareholders so as to satisfy them and to attract potential shareholders. Al-Shubiri (2010) stated that stock volatility is a risky affair for both company and its shareholders since shareholders may lose their investment and company may lose its reputation and stakeholder trust.

The major factors that had been observed that affects the stock and volatility is affected using the different factors which concludes that worse performance of a company results in losses, this is the financial aspect over which shareholders significantly rely therefore, stock returns are affected as company does not have much to pay to their shareholders. Moreover, it has been observed that central bank has to implement procedures and policies for inflation by increasing the rates of interest which reduced amount of funds circulating in market. Increase in interest rates will decrease stock prices as both have inverse relationship. Additionally, policy makers consider the association between stock returns and exchange rate as rate of currency changes. Although, the relationship has been determined in limited manner in literature but it is said that currency valuation plays iimportant role in stock returns. The study has provided with the conclusion that the signs of likelihood of returns and power of prices of oil varies significantly between nations. Increased or decrease in oil prices impact stock return direction. The impact was also studied by Yan (2011), who also indicated that there is noteworthy positive connection between the growth of market and FDI. Based on the assessment of different authors it has been concluded that risk averse investors are not willing to take high danger for greater returns because they do not have huge amount for investment but have invested only to receive average returns as their regular income. Equity multiple and stock return can be increased by taking higher risk i.e. investing in highly volatile securities.