

UNIVERSITY OF ROCHESTER

William E. Simon Graduate School of Business Administration

FIN 411
Investments

Professor G. William Schwert
Spring 1997

Case #1 -- Analysis of Stock Returns: due April 16, 1997

On the Simon School file server in the Computer Center are two Excel spreadsheet files (in self-extracting ZIP format): (1) F411MXLS.EXE contains 120 months of stock returns for several publicly traded stocks, along with three market portfolios (CRSP equal and value-weighted and S&P 500) and the "riskfree" return on a Treasury bill, from January 1986 through December 1995; (2) F411DXLS.EXE contains daily returns for the same assets from January 1986 through December 1995. If you prefer to use Eviews for your analysis, the fileserver also has files F411DWF1.EXE and F411MWF1.EXE that contain the same data. You should do this assignment in groups and prepare a concise report that explains your analysis and findings. Neat, coherent presentation of high-quality analysis is the goal of this assignment. Do not include lots of computer output (although you may show small portions with relevant statistics).

First, estimate beta coefficients, average returns and standard deviations for any five stocks, and discuss the risk estimates in relation to what you may know about the companies involved (e.g., the types of industries these companies are in, the amount of financial leverage the company has, etc.)

(a) Do the estimates of betas and standard deviations match up with your prior perceptions of the riskiness of these different stocks? *Why or why not?*

(b) Are the average returns to these companies' stocks higher for the riskier stocks? *Why or why not?* {Hint: you may want to analyze subperiods of the whole 1986-95 period and consider whether the risks and returns to these stocks have changed over time. Are there reasons why you might expect these stocks' risks to have changed?}

Second, pick one stock and do an "event study." That is, analyze the behavior of the stock returns (perhaps adjusted for risk and market behavior) around some important event(s) in that company's history within the 1986-95 period. Typical events might include litigation, mergers, stock splits, new product announcements, corporate reorganizations, your initial employment with the company or your last promotion, etc. Graph the abnormal and cumulative abnormal returns and analyze the stock market reaction to the event. You should try to identify an event where it would be of interest within the corporation to know how the stock market reacted to it. Comment on the implications of the stock price reaction for past and future management practices.

List of companies on the F411 Files:

<u>Ticker</u>	<u>Name</u>
Rf	TBILL
Rmv	CRSP VW
Rme	CRSP EW
Rsp	S&P 500
AXP	AMERICAN EXPRESS CO
BOL	BAUSCH & LOMB INC
BKHT	BERKSHIRE HATHAWAY INC DE
BFI	BOSTON CELTICS LTD PARTNERSHIP
CNW	BRUSH WELLMAN INC
CPAK	C P A C INC
CDG	CANANDAIGA WINE CO INC
CMB	CHASE MANHATTAN CORP
CHL	CHEMICAL BANKING CORP
FNC	CITICORP
GLW	CORNING INC
DNB	DUN & BRADSTREET CORP
EK	EASTMAN KODAK CO
FISN	FISONS PLC
GRY	GANNETT INC
GE	GENERAL ELECTRIC CO
GM	GENERAL MOTORS CORP
GUN	GENERAL MOTORS CORP
GLL	GENERAL MOTORS CORP
GLE	GLEASON CORP
GULD	GOULDS PUMPS INC
HMX	HARTMARX CORP
HWP	HEWLETT PACKARD CO
KSM	INEFFICIENT MARKET FUND INC
IBM	INTERNATIONAL BUSINESS MACHS
IV	MARK IV INDUSTRIES INC
MOB	MOBIL CORP
PLC	NYNEX CORP
PH	PARKER HANNIFIN CORP
PAYX	PAYCHEX INC
PRD	POLAROID CORP
RGS	ROCHESTER GAS & ELEC CORP
STY	STERLING DRUG INC
SRA	STRATUS COMPUTER INC
EMF	TEMPLETON EMERGING MKTS FD INC
XRX	XEROX CORP