

EFFECTS OF FINANCIAL RISKS ON PORTFOLIO STOCK  
RETURNS: AN EVIDENCE FROM PAKISTAN STOCK EXCHANGE



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**Abstract:**

The present study has investigated various asset pricing models for firms listed in Pakistan Stock Exchange with a time period of eleven years from 2009 to 2019 using monthly data of firms and capital market. As Pakistan is a developing economy, present study has investigated validity of various asset pricing models in scenario of such economies. The initial sample of study has consisted of all listed firms of Pakistan Stock Exchange while after filtering firms' final sample has become 346 listed companies using monthly data of eleven years from Jan, 2009 to Dec, 2019. Different portfolios have constructed on basis of financial distress, liquidity, size and value. Various risk factors have taken in models including financial distress, liquidity, market, size, value and momentum. Data of portfolios have investigated by using statistical tools of descriptive statistics, correlation matrix and regression. Results have shown augmented Fama-French model has best explain portfolio stock returns. Market and momentum factor have positive significant impact on all portfolios. Financial distress factor has significant impact on portfolio of financial distress. One can use different risk factors or build portfolios based on different factors model in scenario of Pakistan in future studies. Investors and portfolio managers must keep in mind stated risk factors while making any investment in portfolio or stocks.

**Keywords:**

CAPM, Fama-French Model, Portfolio Equity Return, Financial Distress, Market Risk, Size, Value, Liquidity, Momentum

## Table of Contents

1.	INTRODUCTION.....	1
1.1.	Background:.....	1
1.2.	Problem identification:.....	6
1.3.	Problem statement:.....	8
1.4.	Research objectives:.....	8
1.5.	Research questions:.....	8
1.6.	Significance of study:.....	9
1.7.	Scope of study:.....	10
1.8.	Organization of study:.....	10
2.	LITERATURE REVIEW.....	11
2.1.	Capital Asset Pricing Model:.....	11
2.2.	Fama-French and augmented models:.....	13
2.3.	Value and Size risks:.....	18
2.4.	Liquidity risk:.....	18
2.5.	Momentum risk:.....	19
2.6.	Financial distress risk:.....	19
2.7.	Modern Theory of Portfolio:.....	20
2.8.	Hypothesis statement:.....	21
3.	RESEARCH METHODOLOGY.....	22
3.1.	Research design:.....	22
3.2.	Choice of variables:.....	22
3.2.1.	Portfolio equity return:.....	22
3.2.2.	Market risk premium:.....	24
3.2.3.	Size premium:.....	24
3.2.4.	Value premium:.....	24
3.2.5.	Liquidity premium:.....	25
3.2.6.	Momentum premium:.....	25
3.2.7.	Financial distress premium:.....	25
3.3.	Sources of Data:.....	26
3.4.	Sampling:.....	27

3.5. Research models: .....	27
3.6. Data Analysis Techniques:.....	28
4. DISCUSSION AND ANALYSIS .....	29
4.1. Descriptive Statistics:.....	29
4.2. Correlation: .....	32
4.3. Regression:.....	34
4.3.1. Regression tests of 12 portfolios based on size, value and liquidity:.....	34
4.3.2. Regression test of 3 portfolios based on financial distress:.....	41
4.4. Major Findings:.....	45
5. CONCLUSION AND RECOMMENDATIONS .....	46
5.1. Conclusion: .....	46
5.2. Practical Implications:.....	47
5.3. Future directions: .....	47
References:.....	48

## List of Tables

Table 3.1: Description of Portfolios for Dependent Variable.....	23
Table 4.1: Descriptive Stats for Portfolios Based on Size, Value and Liquidity.....	30
Table 4.2: Descriptive Stats for Portfolios based on Financial Distress.....	31
Table 4.3 Descriptive Stats of Six Risk Factors .....	32
Table 4.4: Correlation between Portfolios .....	33
Table 4.5: Correlation between Risk Factors.....	34
Table 4.6: Regression Results for Portfolios of size, value and Liquidity on Model 1 ..	35
Table 4.7: Regression Results for Portfolios of size, value & leverage on model 2 .....	37
Table 4.8: Regression Results for Portfolios of size, value & leverage on model 3 .....	39
Table 4.9: Regression Results for Portfolios of size, value & leverage on model 4 .....	40
Table 4.10: Regression Results for Portfolios of Financial Distress on model 1 .....	41
Table 4.11: Regression Results for Portfolios on Financial Distress on Model 2 .....	42
Table 4.12: Regression Results for Portfolios on Financial Distress on Model 3 .....	43
Table 4.13: Regression Results for Portfolios of Financial Distress on Model 4.....	44

## List of Equations

2.1. Portfolio equity return: .....	22
2.2. Market risk premium: .....	24
2.3. Size premium: .....	24
2.4. Value premium: .....	24
2.5. Liquidity premium: .....	25
2.6. Momentum premium: .....	25
2.7. Financial distress premium: .....	25
2.8. Model 1: (model of CAPM .....	27
2.9. Model 2: (three factor model of Fama-French) .....	27
2.10. Model 3: (Alternative model of Fama-French three factor model) .....	27
2.11. Model 4: (Augmented Fama-French three factor model) .....	27