

## **RELATIONSHIP BETWEEN STOCK RETURNS AND SELECTED FUNDAMENTAL VARIABLES: EVIDENCE FROM SRI LANKA\***

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### **ABSTRACT**

This paper investigates the relationship between stock returns and selected fundamental variables viz. Beta, Size, Earnings to price ratio and Book to market value ratio in the Colombo Stock Exchange. Yearly data for the period 1991 to 1996 are used with a view to provide empirical evidence on the Capital Asset Pricing Model which states that expected returns on securities are a positive linear function of their market Betas. Contrary to this theoretical assertion, the empirical results indicate that the Earnings to price ratio is significant in explaining stock returns in the Colombo Stock Exchange.

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