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Testing BIST for Equity Return Anomalies using ARDL Model

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ABSTRACT

Purpose – This study analyzes the Borsa İstanbul against equity return anomalies. With this purpose, the role of key financial stability indicators on long and short-term volatility movements in Borsa Istanbul has been tested.

Design/methodology/approach – The model used in the study attempts to explain the volatility in stock prices using Return on Equity, Equity Ratio, and Net forex position over net income. Zivot Andrews and ARDL bounds tests have been conducted on the series and cointegration relationships between all of the companies are detected. Following this, long term ARDL models and Error correction models have been implemented on each of the series. The data set used in the study covers the period between 2000Q3-2019Q4 at the quarterly frequency. 5 companies are selected out of the BIST100 index with the highest price maturity, excluding the financial institutions.

Findings – Results of the study indicate that both Return on Equity and Equity Ratio have statistically significant, inverse relationships with the analyzed companies both long and in short term. However, for the companies used in the study, the net forex position had no significant effect.

Discussion – As the majority of the stock price volatilities are affected negatively by the equity return factors, the findings of the study reject the existence of a market-wide equity return anomaly in the Turkish stock market. However, the net forex position is one of the most significant risk factors for the Turkish firms and as findings indicate, it is alarming that it plays no part at all in the investment decisions.

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