

ASSET PRICING ANALYSIS OF BOOK-TO-MARKET FACTOR AFTER DEEMED COST

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ABSTRACT

The determination of the cost of equity is a subject extensively researched and discussed in finance, enabling the development of new related studies. In the Brazilian market, Noda, Martelanc and Kayo (2016) obtained results discordant to those found by Fama and French (1995, 1996), indicating that such divergences can be explained by the high rate of inflation. Thus, the present research seeks to analyze whether after the deemed cost - as a means of resolving the effects of inflation - the returns obtained by the portfolios built on the book-to-market index (PL / VM) are statistically different from those observed by the CAPM by the Profit / Price indicator. By means of the results it was possible to conclude that the L / P index did not present itself as more effective to recognize "cheap" or "value" stocks, compared to the book-to-market index. These results are different from those found by Noda et al. (2016) and coincide with the results found by Fama and French (1995, 1996), showing that the traditional three-factor model explains the returns of the constructed portfolios based on book-to-market. Thus, it can be pointed out that the high historical inflation of the Brazilian market, in particular for firms whose assets are older, makes the accounting information of the entities less significant. However, measurements such as those carried out by deemed cost can soften the impact of inflation, granting greater representativeness to the accounting information, thus

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