AC16024

Using Financial Statement Variables to Predict Stock Prices: Lessons from the 2007-2009 Financial Crisis

Benjamin B. Boozer, Jr.
Jacksonville State University
Jacksonville, AL

Lenn Rainwater
Jacksonville State University
Jacksonville, AL

S. Keith Lowe
Jacksonville State University
Jacksonville, AL

ABSTRACT

This analysis considers balance sheet, income statement, and cash flow account ratios in measuring the impact of the 2007-2009 financial crisis on the stock prices of American companies. Fourteen companies that trade on S & P 500 were selected for the model and data gathered for the ten years of the analysis, 2004-2013. Results indicate a mixed relationship on the predictive power of financial statement analysis on stock prices before and after the financial crisis. Size of the company and sales were both strong predictors. Liquidity has a small impact through net working capital, but the post intervention counter variable suggests that the general trend in stock was higher after the crisis. The model concludes that the existing predictive ability holds for the financial statement variables analyzed, and finds that changes in account variables did not foretell stock price correction nor concurrently signal directional price movement as a result of the crisis.