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TITLE: MEASURING RELATIONS BETWEEN BETA COEFFICIENT AND FINANCIAL RATIOS: AN APPLICATION IN ISTANBUL STOCK EXCHANGE

ABSTRACT

Beta coefficient is a tool used to measure sensitivity of company stocks returns related to market indeks. Beta coefficient larger than 1 means higher sensitivity whereas beta coefficient smaller than 1 means lower sensitivity. Hence, beta coefficient is a measure of risk. Stocks having larger sensitivity related to market indeks would have more risks compare to stocks with lower sensitivity.

Some of the financial ratios of a company can also be used to measure risk. A company with lower liquidity, profitability and higher debt ratio would have more risk compare to reverse ratio of the mention ratios.

The purpose of the study is to investigate the relationship between beta coefficient that is a risk and some other risk measures of company ratios. For this purpose, 167 companies whose stocks are traded in İstanbul Stock Exchange (ISE) are collected between the year of 2005-2007 (36 months) monthly returns have gathered and beta coefficient of this stocks have been calculated. In addition, by using end of 2006 year financial statements financial ratios have been calculated. Later, correlation and regression analysis have been performed by using those values.

Results have been interpreted although explanation of beta coefficients have turned out to be lower than expected some significant relationships between financial ratios have been found.

KEY WORDS

Beta Coefficient, Financial Ratio, Risk, Correlation Analysis, Regression Analysis