

Correlation of Change in Fundamental Indicators and Stock Price Movements on Sarajevo Stock Exchange

Enis Dzanic

University of Bihac, Bosnia and Herzegovina

enis.dzanic@bih.net.ba

Fundamental analysis is regarded as one of the key tools in evaluating securities by examining intrinsic value of the business, through primarily the analysis of its financial statements. Although in the short run, various factors might influence investment sentiment and thus stock price movements, in the long run fundamentals should determine stock price performance. Sarajevo Stock Exchange is a pioneering enterprise in the development of a capital market in Bosnian transition economy. Upon examining stock price movements and trade volumes over its ten year history, it is difficult to argue that high volatility in both factors can be attributed to changes in corporate fundamentals. We can thus argue that irrational or speculative determinants are at play; a discouraging prospect for a developing capital market. In order to investigate the correlation between the change in fundamental indicators and stock price movements, ten major companies listed on the exchange were selected using pre-defined criteria, and key fundamental indicators, as well as stock price volatility was examined for a five year period during which Sarajevo Stock Exchange had highest trade volumes. The results indicate that ratios that are price-independent have volatility ten times lower than ratios that are price-determined. Additionally, stock price analysis indicates high standard deviation; a traditionally accepted measure of volatility and intra-year stock price spreads often reach hundreds of percent. Furthermore, when selected indicators are correlated with stock price movements, the research determined that correlation coefficients are low, sometimes negative, suggesting no linear relationship between the change in fundamental indicators and the change in the price of the security. The result of high-risk high-volatility market situation was a significant decline in value of securities listed on the exchange. This decline led to a loss of confidence of individual investors in the exchange which can be illustrated by low trading volumes in the last few years, usually in the region of 1% to 3% of 2007 levels. The exchange thus is incapable of serving most of functions traditionally associated with the business.

Keywords: Stock Price Volatility, Fundamental Analysis, Sarajevo Stock Exchange.