

4-17-2013

# The Role of Safety and Risk in the Returns to Stocks in Volatile Markets

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## Recommended Citation

"The Role of Safety and Risk in the Returns to Stocks in Volatile Markets" (2013). *Stander Symposium Posters*. 282.  
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# Firm Size, Stock Returns and Stock Risk

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• **Study Background:**

- The general argument is that larger firms provide more stable streams of earnings and dividends and are less likely to lose money. This study looks at the Consumer Goods sector to validate this argument.

• **Research Hypotheses:**

- Returns: Increase with firm size
- Dividend Yield: Increases with firm size
- Operating Margins: Increase with firm size
- Standard Deviation of Returns: Decrease with firm size
- Standard Deviation of Operating Margins: Decrease with firm size

• **Study Design:**

- Period of Analysis: 2012
- Sample Universe: Consumer Goods Sector
- Data Source: Finviz Database
- Firms ordered by size (market cap)
- Firms divided into groups of 20
- Five groups identified for analysis:
  - **Very Large Cap (215B – 40B):** Procter & Gamble
  - **Large Cap (38B – 15B):** General Motors
  - **Mid Cap (15B – 8B):** Ralph Lauren
  - **Small Cap (55M – 19M):** Core Molding Technologies
  - **Very Small Cap (18M – 1M):** Standard Register Company

Key Metrics by Group Size	Mean	Mean	Mean
Size	Dividend Yield	Operating Margin	Stock Returns (12 months)
Very Large Cap (VLC)	2.67%	18.54%	19.53%
Large Cap (LC)	2.26%	8.36%	17.76%
Mid Cap (MC)	2.19%	21.35%	15.07%
Small Cap (SC)	1.00%	-3.56%	-3.26%
Very Small Cap (VSC)	0.00%	-14.81%	-38.28%

Key Metrics by Group Size	Standard Deviation	Standard Deviation
Size	Operating Margin	Stock Returns (12 months)
Very Large Cap (VLC)	0.1098	0.1534
Large Cap (LC)	0.0950	0.2134
Mid Cap (MC)	0.2258	0.0813
Small Cap (SC)	0.3994	0.2826
Very Small Cap (VSC)	0.4433	0.3834

• **Conclusions:**

- Returns increased with firm size: VLC returned 19.53% versus -38.28% for VSC
- Dividend Yield increased with firm size: VLC’s yield was 2.67% while VSC’s yield was 0%
- Operating Margins did not increase linearly with firm size. However, VLC had an 18.5% OM while VSC had a -14.8% OM.
- Standard Deviation of Returns decreased with size. VLC had a .15 STD versus a .38 STD for VSC.
- Size is inversely related to risk for the Consumer Goods sector.