Fundamental Analysis: A comparison of Financial Statement Analysis Driven and Intrinsic Value Driven Approaches

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Abstract: Using cross-sectional forecasts, we are able to compare fundamental analysis strategies based on ratio analysis such as FSCORE from Piotroski (2000) and GSCORE from Mohanram (2005) with strategies based on intrinsic value such as the V/P ratio from Frankel and Lee (1998). We find all three strategies generate significant hedge returns. Combining the V/P ratio with FSCORE or GSCORE leads to a significant increase in hedge returns that hold for a variety of partitions, persist over time and remain after controlling for risk factors. The results suggest a new and powerful method to conduct fundamental analysis and have important implications for academic research in fundamental analysis as well as for practitioners in their elusive quest for alpha generating strategies.