

The Dimensions of Stock Returns

Three Dimensions Around the World

- **Equity Market**
(complete value-weighted universe of stocks)
Stocks have higher expected returns than fixed income.
- **Company Size**
(measured by market capitalisation)
Small company stocks have higher expected returns than large company stocks.
- **Company Price**
(measured by ratio of company book value to market equity)
Lower-priced “value” stocks have higher expected returns than higher-priced “growth” stocks.

Expected return is determined by these three factors, not by stock picking, market timing, or random factors in returns.

