APPENDIX B

DEFINITIONS OF FINANCIAL RETURNS

The basic data source of our study was the Annual Industrial Compustat Tape issued by Standard Statistics, Inc., a Division of Standard & Poor's Corp. For each of the companies on the tape some or all of the quantities listed in Table B–1 are given. Their definitions are those currently used in financial analysis and may be found in any of Standard & Poor's source books. The rates of return used in our study have been constructed from the S & P variables and are defined in Table B–2 in terms of the S & P number used in Table B–1.

The base period for calculating the various quantities defined in Appendix A was 1950–1965. However, when a needed datum was not available in any particular year, that measure and all derived measures were adjusted to permit maximum use of all available information.

TABLE B-1.—LIST OF VARIABLES APPEARING ON COMPUSTAT ANNUAL INDUSTRIAL TAPE

S. & P. No.	Balance sheet variables
1	Cash and equivalent.
2	Accounts receivable.
3	Inventories.
4	Current assets.
5	Current liabilities.
6	Total assets.
7	Gross plant.
8	Net plant.
9	Long-term debt.
10	Preferred stock.
11	Common equity (book value).
	Income statement variables
12	Net sales.
13	Operating income.
14	Depreciation and amortization.
15	Fixed charges.
16	Income taxes.

S & P. No.	Balance sheet variables
17	Nonrecurring expenses.
18	Net income.
19	Preferred dividends.
20	Available for common.
21	Common dividends.
	Market value and miscellaneous variables
22	Stock price, high, $1 per share.
23	Stock price, low, $1 per share.
24	Stock price, close, $1 per share.
25	Shares outstanding.
26	Dividends per share.
27	Adjustment factor (for changes in number of shares outstanding).
28	Shares traded.
29	Employees.
30	Capital expenditures.

TABLE B–2.—*Definitions of variables used in study in terms of S. & P. numbers.*

Symbol	Accounting definition	S. & P. code definition †
B	$\frac{\text{Net income}+\text{Fixed charges}}{\text{Total assets}-\text{Current liabilities}}$	$\frac{18+15}{6-5}$††
B′	$\frac{\text{Net income}}{\text{Common equity}}$	$\frac{18}{11}$
B″	$\frac{\text{Net income}}{\text{Total assets}}$	$\frac{18}{6}$
M	$\frac{\text{Fixed charges}+\text{Dividends}+\Delta\text{Market value}†††}{\text{Market value}†††}$	$\frac{15+19+20+\Delta MV†††}{(25*24)+9+14}$

† See table B–1.
†† 6−5=9+10+11 because Total assets=Current liabilities=Total capitalization.
††† $MV_t=(25_t*24_t)+9_t+10_t$.
$\Delta MV=$ffiV_t-MV_{t-1}.