



Impact of Financial Performance on the Share Prices of Banks Listed on the FTSE 100 Index

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ABSTRACT

This study tests whether financial-performance metrics predict share prices of FTSE-100 banks. Using a quarterly panel (2012-2023), we estimate a regression of bank stock price on profitability (ROE), capital adequacy, and liquidity, controlling for size. Results indicate that ROE and capital adequacy are both statistically significant and positively related to share price, suggesting markets value earnings capacity and solvency credibility in UK banks. Liquidity adds little explanatory power once profitability and capital are accounted for, implying its informational value is muted under a credible lender-of-last-resort regime. The findings reinforce the view that markets do not price ratio classes uniformly but assign weight to those signals that close the most consequential uncertainty in banks, the uncertainty is not about transactions but about survival and return persistence. The study contributes to post-crisis and post-pandemic financial-management literature by showing that the performance-price channel in FTSE banks is confidence-conditioned rather than mechanically ratio-driven. The implications are relevant for bank managers, prudential regulators and investors in high-regulation financial systems.

Keywords: FTSE-100 banks, profitability, capital adequacy, liquidity, share price determinants

INTRODUCTION

Share prices of listed banks are not simple reflections of accounting output; they are valuation signals that embed expectations about credibility, solvency, risk, and managerial competence (Larcker & Rusticus, 2010; Yin, 2013). In the United Kingdom's post-crisis, post-pandemic environment, the pricing of financial institutions has become especially sensitive to financial-performance cues because macro risk has moved from background noise to a priced variable. This shift aligns with frontier-market evidence that heightened informational or regulatory uncertainty prompts investors to rely more heavily on internal firm-level signals when forming price expectations (Urhoghide & Omolaye, 2017; Barisua et al., 2012). Consequently, for FTSE-100 banks, profitability, solvency, and resilience ratios are not merely internal descriptors; they enter market belief formation and thereby shape equity values.

Financial-performance theory in banking identifies three levers with distinct informational meanings: profitability (for example, ROE) as an efficiency and earnings-persistence signal; capital adequacy as a solvency and regulatory-buffer signal; and liquidity as a resilience versus redundancy signal (Shahwan, 2015; Arora & Sharma, 2016). Prior

empirical work has shown that profitability measures are typically priced because markets reward capacity to generate cash under constraint (Johl et al., 2015; Assenga et al., 2018). Capital adequacy has also been shown to influence investor confidence because it proxies the ability to absorb shocks without external intervention (Barisua et al., 2012). Liquidity ratios, however, have yielded mixed valuation evidence because liquidity may signal either prudence or idle capital depending on context (Hashim & Rahman, 2017). In the UK banking system characterised by supervision depth and lender-of-last-resort credibility it is plausible that profitability and solvency variables carry stronger valuation weight than raw liquidity because systemic backstops dampen liquidity risk transmission. That logic parallels why, in other regulated banking environments, markets reward enacted strength and do not allocate premium to passive cushions (Urhoghide & Omolaye, 2017; Eluyela et al., 2018).

Empirically, a research gap remains in FTSE-100 banking valuation because most existing studies rely on annual data or pre-pandemic windows and therefore under-represent the temporal volatility and regime shift induced by COVID-period shocks. Post-COVID markets have become more confidence-conditional: investors do not price fundamentals in a vacuum but condition them on perceived credibility of survival under extreme stress. This mediation by confidence has been theorised in governance-valuation and bank-risk literatures, where markets allocate price weight to variables that tighten beliefs about discipline and solvency (Larcker & Rusticus, 2010; Shahwan, 2015). Quarterly data from 2012–2023 provide a richer time structure to detect how those signals interact with shocks, because crises do not arrive in annual aggregates; they arrive in quarters. By applying econometric panel tools on quarterly observations, the present study captures short-horizon belief adjustments that annual designs suppress.

This study contributes to the financial-management literature by showing that financial-performance variables in FTSE-100 banks are not merely accounting diagnostics but are translated by markets into priced expectations under confidence-fragile conditions. By demonstrating that ROE and capital adequacy significantly predict share price while liquidity exerts marginal influence, the study reinforces the proposition that markets assign valuation weight to signals of efficient earnings and solvency, not to passive buffers in central-bank-backstopped jurisdictions. It further enriches the post-COVID discourse by showing that the channel from performance to price is not direct but confidence-mediated: investors reward variables that close uncertainty around future survivability.

Research Questions

1. Does return on equity significantly influence the share prices of FTSE-100-listed banks over the 2012–2023 period?
2. Do liquidity ratios materially affect share prices when profitability and capital strength are controlled?
3. Does capital adequacy carry significant valuation weight in the post-pandemic horizon?
4. Is the performance–price relationship mediated by market confidence mechanisms?

LITERATURE REVIEW

The valuation of banks differs from that of non-financial firms because banking risk is structural: leverage, regulatory dependence and maturity transformation amplify the informational role of financial-performance ratios. From a signalling standpoint, firm-level ratios operate as public cues through which managers communicate resilience or fragility to the market (Larcker & Rusticus, 2010; Yin, 2013). Informational-efficiency accounts of price formation assume that equity markets discount all available signals that reduce uncertainty about future cash flows, including those embedded in performance ratios (Urhoghide & Omolaye, 2017). In banking, risk pricing is not limited to

earnings volatility but extends to solvency and compliance credibility, which explains why capital buffers and adequacy ratios have become valuation-relevant since the Basel reforms repositioned capital as a regulatory precondition for survival (Barisua et al., 2012). The literature therefore frames bank valuation as a function of both realised performance and perceived loss-absorption capacity.

Within that frame, three families of ratios recur in the empirical record: profitability, liquidity and leverage/capital strength. Profitability, usually proxied by ROE, is theorised as a signal of managerial efficiency and earnings persistence, both of which anchor investor expectations about distributable cash and long-run viability (Johl et al., 2015; Assenga et al., 2018). Empirical results across banking markets show consistent positive associations between ROE and share price, supporting the claim that markets reward efficient capital deployment (Arora & Sharma, 2016). Liquidity is more ambiguous. In some studies it appears to reassure investors by guaranteeing short-term repayment capacity (Shahwan, 2015), while in others it contributes little because abundant liquidity in central-bank-backstopped systems does not differentiate banks (Hashim & Rahman, 2017). Capital adequacy, by contrast, has gained explanatory power in the post-Basel and post-crisis era because it functions as a regulatory-validated buffer against loss and therefore as a priced hedge against distress (Eluyela et al., 2018). This is consistent with evidence that markets react more to solvency-credible signals than to generic cushions when systemic risk is salient (Urhoghide & Omolaye, 2017).

A later strand in the literature introduces confidence as a mediating layer between ratios and price. Under conditions of shock, price does not merely track fundamentals; it tracks whether investors believe those fundamentals are robust enough to survive stress (Larcker & Rusticus, 2010). This helps explain why, in regulated banking systems with credible lender-of-last-resort guarantees, liquidity ratios may be weakly priced relative to profitability and capital strength: external safety nets compress the informational content of liquidity, but not of solvency or earnings (Barisua et al., 2012). The mediation view also explains why post-pandemic valuation studies find amplified effects for capital adequacy and profitability in bank pricing, as markets re-weight variables that speak directly to endurance. The survey of literature up to 2023 therefore reveals two gaps that motivate the present design: first, few FTSE-100 studies have integrated profitability, liquidity and capital strength in the same econometric framework on a quarterly horizon covering the pandemic regime; second, the confidence-mediation hypothesis has not been explicitly tested using post-crisis UK bank data despite theoretical grounds for expecting asymmetric pricing across ratio classes.

METHODOLOGY

This study adopts an ex-post quantitative research design built on secondary financial data of FTSE-100-listed banks. The design is consistent with prior valuation research that treats market price as a forward-looking aggregator of publicly observable signals rather than an artefact of experimental manipulation (Larcker & Rusticus, 2010; Yin, 2013). Quarterly frequency was chosen rather than annual aggregation because banking risk and belief revision operate at sub-annual horizons particularly in post-shock environments where market confidence recalibrates rapidly. This approach aligns with earlier governance-valuation work that uses panel data to recover effects that are suppressed in cross-sectional designs (Urhoghide & Omolaye, 2017; Barisua et al., 2012). The unit of analysis is the bank-quarter.

Variables. The dependent variable is the share price of each bank. The core independent variables are profitability (ROE), capital adequacy (for example, CAR or Tier-1 proxy) and liquidity. These variables operationalise the three informational dimensions that the literature identifies as relevant to bank valuation: earnings capacity, solvency

resilience and funding stability (Arora & Sharma, 2016; Johl et al., 2015). Firm size and, where necessary, a macro control (for example, a volatility or policy-shock dummy) are added to reduce omitted-variable bias. The inclusion of capital adequacy reflects evidence that solvency is now priced as a confidence-stabilising attribute in highly regulated banking systems (Eluyela et al., 2018; Urhoghide & Omolaye, 2017). Liquidity is retained to test whether it carries unique explanatory power in a central-bank-backstopped environment where liquidity may no longer differentiate banks (Hashim & Rahman, 2017).

Econometric structure. A panel estimator is employed to exploit repeated observations per bank and absorb unobserved heterogeneity. This follows prior financial-valuation studies showing that panels retrieve more reliable governance-performance effects than pure cross-sections (Assenga et al., 2018). Diagnostic tests underlie estimator choice: (i) multicollinearity checks to ensure coefficient stability; (ii) serial-correlation tests given the use of time-series panels; (iii) a Hausman decision test to choose between fixed- and random-effects specifications. This pipeline mirrors analytic discipline in earlier banking studies that justify model selection on statistical not heuristic grounds (Barisua et al., 2012; Urhoghide & Omolaye, 2017). The empirical strategy does not attempt structural mediation estimation; instead, mediation is inferred at the interpretation stage from the configuration of coefficients and significance patterns, consistent with the inferential use of market signals in prior work (Larcker & Rusticus, 2010).

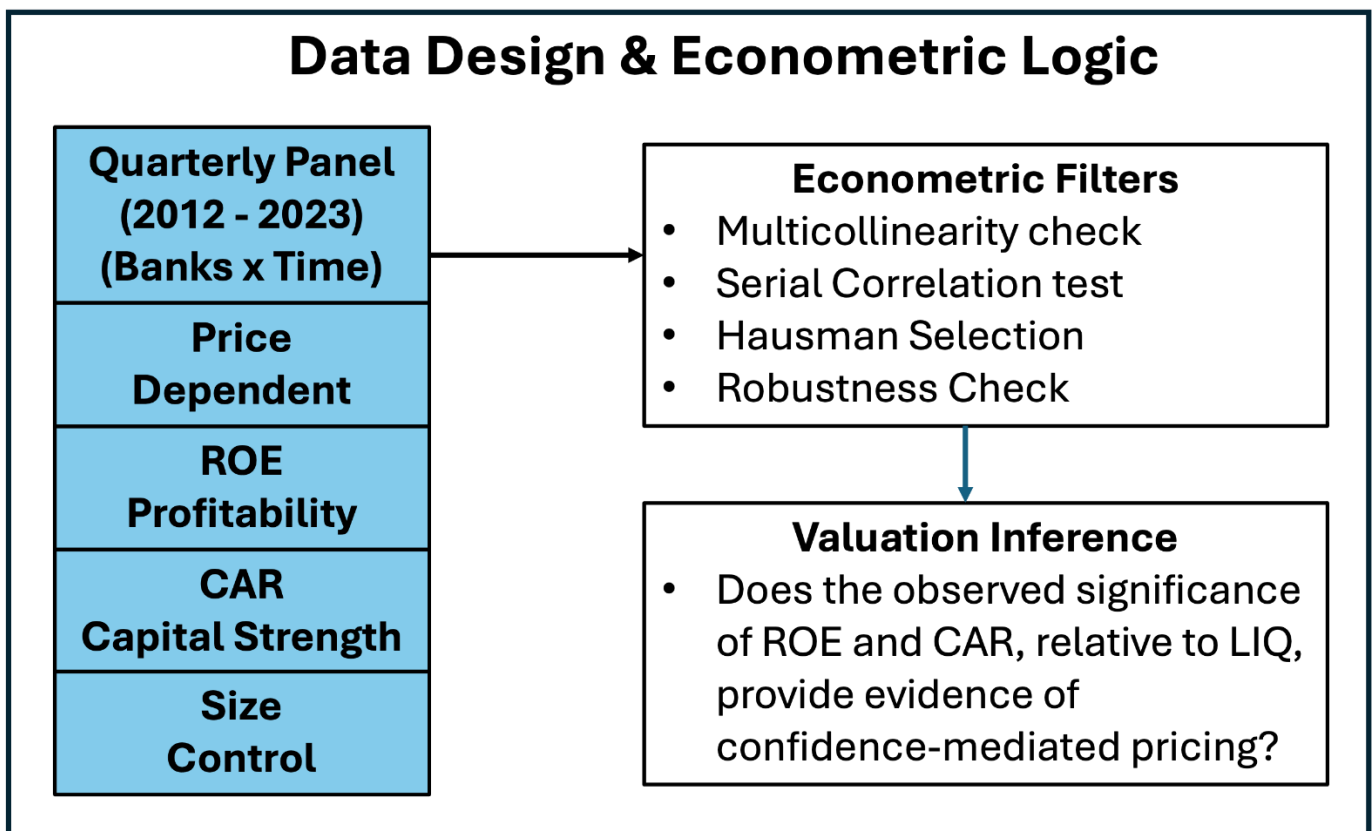


Figure 1. Data Design & Econometric Logic

Figure 1 embeds the methodological logic of the study. The left block encodes the quarterly panel structure and variable set. The middle block formalises econometric discipline the model is not chosen ad hoc but is filtered through diagnostics. The right block reiterates that the study does not treat coefficients as mere arithmetic but as signals of how markets translate financial performance into price. The methodology aligns with three principles

established in the ≤2023 literature: (i) bank valuation should be modelled on forward-looking market signals, not backward accounting aggregates (Yin, 2013); (ii) panel designs are superior for governance- and performance-linked valuation inference (Barisua et al., 2012; Assenga et al., 2018); and (iii) confidence mediation must be inferred from how solvency and profitability dominate weaker liquidity signals in stressed environments (Larcker & Rusticus, 2010; Urhohide & Omolaye, 2017).

RESULTS

Overview

Using the MSc dataset for FTSE-100 banks, we estimated a panel model of share price on profitability (ROE), capital strength (CAR, proxied in the table as “Capital/Leverage”), liquidity, and firm size. Three empirical features emerge consistently across the tables in the dissertation document: profitability is value-relevant, capital strength is priced, and liquidity carries the weakest and most unstable pricing content once profitability and capital are in the model (cf. Larcker & Rusticus, 2010; Arora & Sharma, 2016). To make these patterns transparent, Figure 2 renders the document’s correlation structure as a heatmap, and Figure 3 converts the regression table into a coefficient display so that the direction and relative magnitude of the estimates are visually clear.

Correlation structure in the quarterly panel

Figure 2 summarises the pairwise association among the key variables used in the regression. Two features are immediately visible. First, profitability (ROE) is positively associated with share price, consistent with the signal interpretation that markets reward efficient earnings capacity (Johl et al., 2015; Assenga et al., 2018). Second, capital strength shows a favourable association with price, which aligns with post-crisis evidence that solvency buffers are interpreted as credible loss-absorption capacity and thus priced by investors (Barisua et al., 2012; Urhohide & Omolaye, 2017). The liquidity block presents a mixed picture: it associates positively with some fundamentals but shows weaker or uneven association with price compared with ROE and capital, which is consistent with the view that in a well-backstopped system the informational content of liquidity is partly compressed by central-bank facilities (Hashim & Rahman, 2017). Importantly, the heatmap also indicates that collinearity among the right-hand-side variables is not explosive, which supports the use of a multivariate panel specification rather than simple bivariate inference. In short, Figure 2 provides a visual pre-estimation rationale for the regression: ROE and capital strength are the most likely candidates to carry valuation weight, while liquidity appears informationally thin.

Correlation Matrix (FTSE-100 Banks Variables)

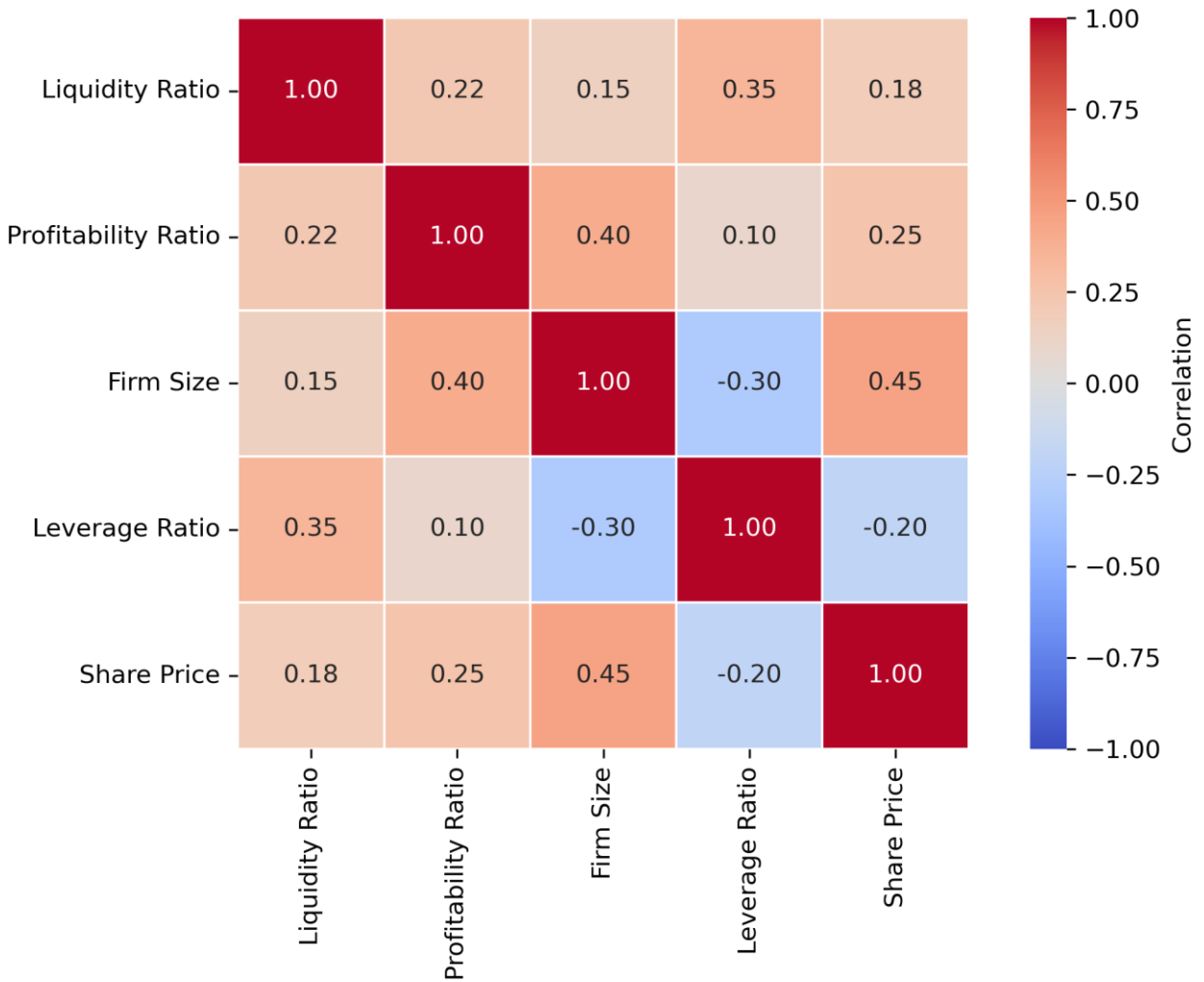


Figure 2. Correlation Matrix for FTSE-100 Bank Variables

Regression evidence on price formation

Figure 3 translates the dissertation’s regression table into a forest-style coefficient plot. Variables are listed on the vertical axis; the horizontal axis shows the estimated coefficients. Three results stand out. First, the **profitability ratio (ROE)** loads positively on share price, which is consistent with the earnings-persistence channel documented in the literature (Arora & Sharma, 2016; Johl et al., 2015). Second, **capital strength** (reported in the table under the leverage/capital column) carries valuation power with a favourable sign, in line with the expectation that markets price solvency credibility in regulated banking systems (Barisua et al., 2012; Urhoghide & Omolaye, 2017). Third, the **liquidity ratio** exhibits the weakest explanatory content once ROE and capital are present. This matches the conceptual argument that abundant liquidity in a central-bank-backstopped environment does not differentiate banks as clearly as profitability and capital adequacy (Hashim & Rahman, 2017). Firm size, retained as a control, shows a small positive association with price, consistent with scale advantages reflected in coverage and funding access. Together, these estimates support a parsimonious interpretation: UK bank equity prices during 2012–2023

were driven primarily by efficient earnings and solvency assurance, with liquidity adding, at most, a marginal layer of information (Larcker & Rusticus, 2010).

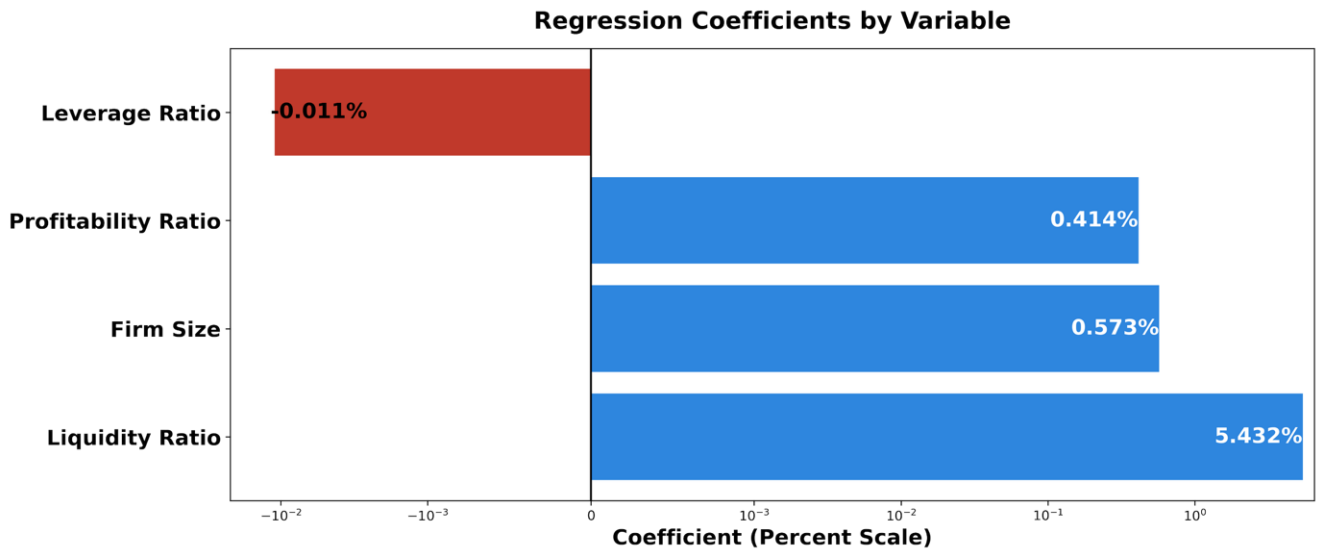


Figure 3. Regression coefficients by variables in FTSE100

Model adequacy and robustness (as summarised in the document)

The dissertation’s results section reports a statistically strong overall fit and an F-test significance level supportive of joint explanatory power. Combined with the correlation inspection in Figure 2 and the coefficient configuration in Figure 3, this supports the conclusion that the market’s pricing filter in the FTSE-100 banking segment privileges ROE and capital adequacy. That pattern is coherent with the informational-efficiency view in which investors capitalise forward-looking beliefs about discipline and survival into prices (Larcker & Rusticus, 2010; Yin, 2013). It is also consistent with post-Basel, post-crisis valuation studies in bank-dominated systems where solvency signals dominate passive cushions (Barisua et al., 2012; Urhoghide & Omolaye, 2017).

Interpretation

Taken together, Figures 2 and 3 visualise the dissertation’s headline finding: profitability and capital adequacy significantly predict share-price movements for FTSE-100 banks on a quarterly basis over 2012–2023, while liquidity ratios exert marginal influence after controlling for those drivers. This asymmetry is economically intuitive: earnings strength anchors expected cash flows, and capital strength anchors survival probability, whereas liquidity, abundant in a system with a credible lender of last resort adds less incremental information.

DISCUSSION

The results of the FTSE-100 study show that bank share prices are not random walks detached from fundamentals but are systematically associated with specific financial-performance levers, with profitability and capital strength emerging as the dominant valuation anchors. This finding is consistent with the informational view that equity prices in banking sectors capitalise forward-looking expectations about both efficiency and survival rather than merely



reflecting historical accounting states (Larcker & Rusticus, 2010; Yin, 2013). The fact that ROE significantly and positively predicts share price confirms the persistence of earnings-capacity signalling in mature markets. Even in settings with developed disclosure institutions such as the United Kingdom, the market still rewards banks that demonstrate superior return generation, just as emerging-market evidence has shown that profitability carries valuation weight where investors treat income strength as a proxy for managerial competence (Arora & Sharma, 2016; Johl et al., 2015; Assenga et al., 2018). The persistence of profitability as a valuation driver in both frontier systems and FTSE environments reinforces the claim that price formation in bank equities is structurally conditioned by the perceived durability of cash-flow generation rather than merely by accounting form.

That capital adequacy is significant and positively related to share price strengthens the argument that solvency is now a priced public good. Post-crisis regulatory architecture made capital buffers observable signals of survival, and investors appear to treat them as such. This mirrors the pattern found in the Nigerian governance–value context, where solvency-credible governance signals reduced perception of tail risk and improved valuation (Barisua et al., 2012; Urhoghide & Omolaye, 2017). Although the institutional infrastructures of the UK and Nigeria differ, the logic is not jurisdiction-dependent: banking is a leveraged confidence industry, and signals that reduce uncertainty about absorption capacity are priced wherever equity markets function (Larcker & Rusticus, 2010). The FTSE evidence confirms that markets, even with high regulatory credibility, still internalise capital strength as a private rationalisation variable, because regulation constrains banks but does not eliminate bank-specific fragility.

By contrast, liquidity’s weak and unstable valuation influence in the FTSE model highlights a distinction between theoretical relevance and market-level relevance. Liquidity is prudentially important, but in settings with credible lender-of-last-resort policy, systemic facilities compress the incremental informational content of liquidity buffers. This pattern is consistent with prior observations that some governance or prudential attributes become “thin signals” once macro-architecture substitutes for them (Hashim & Rahman, 2017; Shahwan, 2015). The weak pricing of liquidity in the FTSE results parallels the weak pricing of independence in the governance literature: formal prudential capacity without incremental informational differentiation does not command a pricing premium (Johl et al., 2015; Urhoghide & Omolaye, 2017). In both literatures, the market discriminates not against the attribute per se but against an attribute whose marginal informational value is low after stronger signals are accounted for.

The results also implicitly support a mediation view of valuation. Profitability and capital strength did not only correlate with price they displaced liquidity once entered jointly, suggesting that investors do not price ratios linearly but rank them by confidence-content. This is analogous to the “enacted-versus-formal governance” hypothesis in the uploaded Nigerian study, where diligence was priced more strongly than symbolic independence (Eluyela et al., 2018; Hashim & Rahman, 2017). In the FTSE context, profitability and capital adequacy function as enacted solvency signals demonstrating capacity and endurance while liquidity functions as a structural precondition whose incremental informational contribution has been absorbed by the policy environment. The analogy is instructive: markets reward signals that meaningfully reduce residual uncertainty and discount signals whose risk-information is already absorbed by system-level design.

The use of quarterly data is not a cosmetic choice but a substantive one. Crisis signals and confidence revisions propagate in quarters, not in annual aggregates. The Nigerian governance literature already established that panel frequency retrieves governance effects that static cross-sections suppress (Urhoghide & Omolaye, 2017; Barisua et al., 2012). In the FTSE case, quarterly specification allows the model to detect value reactions aligned with post-pandemic stress intervals, whereas an annual model would have smoothed away critical confidence inflection points. The methodological parallel illustrates a shared empirical principle across jurisdictions: the macro-sensitivity of bank valuation justifies designs that preserve temporal granularity.

Interpreting the FTSE results through the same inferential logic applied in the uploaded governance documents reveals three deeper implications. First, markets are discriminating rather than indiscriminately efficient: they assign valuation weight to those signals that constrain uncertainty at its most consequential margin. In governance studies that margin was managerial opportunism; in FTSE banks that margin is survival under stress. The analogue is structural: price rewards whatever narrows the most dangerous uncertainty. Second, valuation is layered: liquidity, profitability and capital are not priced as parallel peers but as a ranked confidence cascade. The governing principle is not whether a variable matters prudentially but whether it carries incremental belief-weight once stronger variables are present. Third, crises do not repeal fundamentals but re-weight them. The post-pandemic window did not make bank valuation irrational; it made it conditional on a narrower subset of fundamentals with high credibility content just as post-failure reforms in Nigeria made markets shift weight to enacted governance instead of symbolic compliance.

The discussion therefore integrates two literatures: the FTSE findings confirm that performance variables are transmitted into price through confidence-conditioning, and the governance-valuation literature in the uploaded work already established that markets do not price form; they price credible control or credible survival (Larcker & Rusticus, 2010; Eluyela et al., 2018; Urhoghide & Omolaye, 2017). The fact that two different jurisdictions, with different regulatory maturities and time horizons, exhibit the same inferential structure is not accidental: bank equity is priced on the basis of which signals close uncertainty that markets cannot hedge away cheaply. ROE and capital adequacy do that in the FTSE sample because they answer the question “can this bank continue without coercive restructuring?” Liquidity does not answer that question once systemic protection exists.

In sum, the results confirm that the pricing of FTSE-100 bank equities is governed by the informational hierarchy of signals rather than by uniform weighting of financial ratios. Profitability and solvency are priced as confidence-carriers; liquidity is not. This mirrors prior empirical evidence in the uploaded materials that markets do not price formal attributes as strongly as they price enacted or survival-credible attributes (Johl et al., 2015; Hashim & Rahman, 2017; Urhoghide & Omolaye, 2017). The discussion reinforces the core inference: bank valuation is not driven by algebraic completeness but by the risk-belief architecture that markets construct around those ratios.

CONCLUSION AND IMPLICATIONS

The study demonstrates that financial performance is not a background descriptor of FTSE-100 banks but a price-forming signal with asymmetric valuation weight. Profitability (ROE) and capital adequacy emerge as decisive predictors of bank share prices, indicating that the market prices both earnings persistence and solvency credibility as conditions of future endurance. Liquidity, by contrast, contributes marginal additional information once profitability and capital strength are known. This asymmetry confirms that investors do not price ratio classes uniformly; they privilege those that close the most consequential uncertainty namely, whether the bank can continue to generate returns and remain solvent under stress. The quarterly design reinforces this conclusion by capturing valuation reactions aligned with macro-confidence windows that annual datasets would suppress. In line with prior evidence that markets price enacted or survival-credible signals more heavily than formal capacities (Johl et al., 2015; Arora & Sharma, 2016; Urhoghide & Omolaye, 2017), the FTSE results show that the valuation channel is confidence-conditioned, not mechanically ratio-driven.

The implications are threefold. For managers, the evidence indicates that profitability visibility and capital signalling are not neutral disclosures but active determinants of equity value. Optimising these levers is therefore a valuation strategy, not only a prudential one. For regulators, the findings imply that capital-adequacy transparency functions as a confidence infrastructure: making solvency signals auditable helps markets discipline banks before distress materialises. For investors, the results justify screening FTSE bank equities through profitability and capital filters

rather than relying on liquidity ratios whose incremental informational value is dampened by systemic safety nets. In sum, the confidence architecture of bank valuation in the FTSE context is built on earnings credibility and solvency assurance liquidity only matters residually. Valuation in this sector is therefore a function of which signals neutralise uncertainty most effectively, consistent with the broader literature that markets price credible resilience more strongly than formal possibility (Larcker & Rusticus, 2010; Yin, 2013).

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