

# **Stock Return Predictability: A comparison of two seemingly similar markets**

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## **Abstract**

One of the main focuses of empirical financial literature to date has been to find variables that are capable of predicting stock market returns. Despite the fact that there has been some controversy in past findings, most authors concur that excess returns are predictable to some extent. One constant throughout the majority of the literature however, is the sampled population. This has led to concerns regarding both possible data mining and size distorted results at long horizons. This study explores the findings typically linked to the S&P 500 index and tests their robustness with respect to the Toronto Stock Exchange (TSX) in effect verifying data mining. The results display dividend yield and dividend price ratio become stronger predictors for stock returns as the time horizon increases. These results should be approached with a degree of skepticism. Despite the significance in predictability, the study shows that nothing outperforms the historical average as a predictor for stock returns.