

**THE RELATIONSHIP BETWEEN STOCK RETURNS AND  
TRADING VOLUME OF LISTED COMPANIES  
IN COLOMBO STOCK EXCHANGE**



**YATIGAMMANAGE DEVIKA NAYOMI KUMARI**



FCM1953



Project Report  
Library - EUSL

2017

PROCESSED  
Main Library, EUSL

## **ABSTRACT**

Trading volume and stock returns are two key concepts in finance. This study examined the relationship between stock returns and trading volume of listed companies in Colombo Stock Exchange. Main objective of the study is to identify the nature of relationship exists between trading volume and stock returns of listed companies in Colombo Stock Exchange. The study is conducted by using secondary data and focused quantitative approach. Data was collected from data CD in CSE. The research period covered 12 months from January 2016 December 2016. In this study, descriptive analysis, correlation analysis and regression analysis methods and the Statistical Package for Social Sciences (SPSS) was used for analysis.

The study revealed that stock returns are positively related to the contemporary change in trading volume. The importance of this study depends on giving ways to investors ( individual, company) in order to maximize their returns by getting optimal investments decisions which depends on understanding the correlation between stock prices and trading volume basis through which to provide the appropriate information to make investment decisions, it is through this relationship facilitates the construction of a short term outlook on the future price volatility, which helps companies to contribute to the strengthening of profitability.

## TABLE OF CONTENTS

Acknowledgement .....	I
Abstract .....	II
Table of Contents .....	III
List of Tables .....	VI
List of Figures .....	VII
Abbreviations .....	VIII
1. Chapter One	
1.1. Background of the Study .....	01
1.2. Problem Statement.....	04
1.3. Research Questions.....	05
1.4. Objectives of the Study.....	05
1.5. Significance of the Study.....	05
1.6. Scope of The Study.....	06
1.7. Limitation of the Study .....	06
1.8. Chapter Organization.....	06
1.9 Chapter Summary.....	07
2. Chapter Two	
2.1. Chapter Introduction.....	08
2.2. Trading Volume.....	08
2.3. Number of Trades .....	09
2.4. Share Volume.....	09
2.5. Turnover.....	10
2.6. Stock Returns.....	10
2.7. The Relationship between Trading Volume and Stock Returns.....	10
3. Chapter Three	
3.1. Chapter introduction .....	14
3.2. Conceptual Framework.....	14
3.2.1 Stock Returns.....	15
3.2.2 Trading Volume.....	17
3.2.3 Number of Trades .....	17

3.2.4 Share Volume .....	17
3.2.5 Turnover .....	17
3.3. Hypotheses of the Study .....	18
3.4. Operationalization.....	19
3.5. Chapter Summary .....	19
4. Chapter Four	
4.1. Chapter Introduction.....	20
4.2. Research Design .....	20
4.3. Population.....	20
4.4. Sample .....	21
4.5. Data Collection .....	21
4.6. Method of Data Presentation .....	22
4.6.1 Univariate Analysis .....	22
4.6.2 Bivariate Analysis.....	22
4.6.3 Multivariate Analysis .....	22
4.7 Chapter Summary .....	23
5. Chapter Five	
5.1. Chapter Introduction.....	24
5.2. Data Presentation.....	24
5.3. Data Analysis.....	26
5.3.1 Univariate Analysis.....	26
5.3.1.1 Descriptive Analysis of independent variables.....	27
5.3.1.2 Descriptive Analysis of dependent variable.....	28
5.3.1.3 Descriptive Analysis of dependent variable based on quarter.....	28
5.3.1.4 Descriptive Analysis of independent variables based on the quarter	29
5.3.2 Bivariate Analysis .....	29
5.3.2.1 Correlation between Stock Return and Trading Volume.....	31
5.3.2.2 Correlation between Trading Volume and No of shares, share volume and turnover.....	32
5.3.3 Multivariate Analysis .....	33

5.3.3.1 Multiple Regression Analysis .....	33
5.3.4 Hypothesis Testing .....	35
5.4. Chapter Summery .....	36
6. Chapter Six	
6.1. Chapter Introduction.....	37
6.2. The Discussion of Descriptive Statistics.....	37
6.2.1 Descriptive Statistics Analysis of Trading Volume.....	37
6.2.2 Descriptive Statistics Analysis of No of Trades.....	38
6.2.3 Descriptive Statistics Analysis of Share Volume.....	38
6.2.4 Descriptive Statistics Analysis of Turnover.....	38
6.2.5. Descriptive Statistics analysis of Stock Return .....	39
6.3 Discussion on Relationship between Trading Volume - Stock Return.....	39
6.3.1 Relationship between Trading Volume and Stock Return.....	39
6.3.2 Best proxy for information arrival.....	40
6.4. Chapter Summery .....	41
7. Chapter Seven	
7.1. Chapter Introduction.....	42
7.2. Conclusions .....	42
7.3. Recommendations.....	43
7.4. Suggestions for the future studies.....	43
7.5. Limitation of the study.....	44
7.6. Chapter Summery .....	44
8. References.....	45
9. Appendix	
Appendix - 1: The Output of the Analyses .....	46