

OWNERSHIP STRUCTURE AND THE RISK-RETURN PROFILES OF JAPANESE STOCKS

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Abstract

This paper empirically investigates how ownership structure of Japanese firms affects the risk-return profiles of their stocks. We find significant relationships between ownership and firms' operational performance, i.e., the ownership of financial institutions is associated with poor performance while the ownership of large shareholders is associated with the opposite. However, comparing the returns on portfolios sorted by ownership, we find no significant relationships between ownership and the rates of returns. Specifically, excess returns are insignificant after controlling for three risk factors (i.e., market, size, and value) while factor loadings are significantly different across portfolios, i.e., the ownership of financial institutions is associated with low-risk, low-return portfolios while the ownership of large shareholders is associated with the opposite.

Keywords: Corporate ownership, stock returns, risk factors