Stock Selection with Value Investment Strategy: Analysis of Borsa Istanbul Construction, Cement and Real Estate Investment Trusts Sectors

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Abstract:

This study focuses on the application of a value investment strategy in the Istanbul Stock Exchange, specifically targeting the construction, cement, and real estate investment trust (REIT) sectors. The "seal selection" approach, a metaphorical term for identifying high-potential investment opportunities, emphasizes the evaluation of intrinsic value and market performance. Value investment is one of the investment strategies that attracts great attention from investors and academics. The value investment strategy is based on determining stocks whose real value is higher than their market value using fundamental analysis methods. The success of this strategy depends on the ability of some companies in the portfolio to compensate for the weak performance of others. In this context, determining the right stocks is a critical issue for value investment. Therefore, the most important step in the fundamental analysis process is company analysis. Because the stocks selected for the portfolio are determined as a result of company analysis. The Piotroski F-score is a fundamental analysis method consisting of simple accounting ratios to determine stocks with high financial strength. The F-score can be defined as a fundamental analysis score based on accounting signals developed by Piotroski for value companies with high book value/market value ratios. Piotroski (2000) showed in his study that a simple financial statement-based cognitive method called the F-Score can distinguish between companies that will provide high returns and companies that will perform poorly on a sample of value companies with high book value/market value ratios.The appeal of the F-Score, an accounting-based investment signal, stems from its simplicity of calculation and ease of understanding. In addition, the F-Score appeals to a large number of investors who believe that stocks with strong fundamental indicators should perform well in the long term, in line with the value investment philosophy. Piotroski (2000) showed in his study that stocks of companies with high F-Scores provided strong returns on the American Stock Exchanges, and many other studies later supported the original findings (Kim & Lee, 2014; Gimeno et al., 2020; Walkshäusl, 2020). Hyde (2018) presented findings that the F-Score is applicable on the Australian Stock Exchange. Mallick & Das (2022) evaluated the performance of the F-Score together with Altman's Z-Score on newly publicly traded stocks on the Indian Stock Exchange and reported findings that it provided positive returns. Noma (2010) confirmed that stocks with high F-Scores can achieve above-index return performance on the Tokyo Stock Exchange. Pätäri et al. (2018) investigated the performance of F-Scores and basic stock valuation ratios on the German Stock Exchange between 2000 and 2015. The study provided strong evidence that using F-Scores as stock selection criteria provides positive returns. In addition, the findings show that F-Scores increase the efficiency of valuation ratios.

Eremenko (2017) tested 326 companies traded on the Russian, Indian, Brazilian, German and British Stock Exchanges between 2011 and 2016, obtained reliable data from 115 of them and confirmed that investments in companies with high F-Scores provide above-index returns. In studies comparing the performance of the F-Score in different countries, Tikkanen & Äijö (2018) evaluated the return performance of the F-Score in 16 European countries, and Walkshäusl (2020) in 20 countries in different regions of the world. No academic study could be found confirming that the Piotroski F-Score can be used as an effective fundamental analysis tool in selecting stocks on a sample of publicly traded companies in Turkey. As a result of this study, it is expected to reach two important effects. First, the testing of the Piotroski F-Score, a value investment strategy method that has not been tested in our country before, on Borsa Istanbul companies will form a basis for the application of fundamental analysis methods for subsequent academic studies. Second, the results obtained from the project will guide individual and institutional investors in portfolio management. The second effect desired to be reached as a result of the study has the potential to contribute to the United Nations (UN) Global Goals for Sustainable Development. This effect can especially contribute to the UN's economic growth goal. Because contributing to individual and institutional investors' ability to make more stable investments in capital markets can be directly associated with the deepening and spreading of capital markets in our country. This study shares preliminary information about ongoing analyses.

Keywords:

Stock Selection, Sector Analysis, Construction, Cement, Real Estate.