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Predicting Inflection Points of Share Prices Using Modified Altman, Pustynick and Chanos Model Working Paper’s Title
Abstract

In this dissertation, the problem with lack of theoretical framework surrounding the bankruptcy prediction research is discussed and a model of bankruptcy prediction using the ACP model is presented. The literature review covers three areas; theoretical framework, econometrics and application of econometric models. The aim of this dissertation is to describe, analyse and discuss the problem with lack of theoretical framework and proposed a new theoretical framework for bankruptcy prediction research. The benefit of having a strong theoretical framework is that it focuses on explaining the observation rather than repeating the process with different tools just to prove the accuracy of the prediction. This dissertation performed an empirical test in order to investigate the predictive power of the modified Altman, Pustylnick and Chanos ACP model to determine if the application of these models can predict inflection points, major points of change which precede changes in the market prices of public company equities listed on major exchanges. The three models (ACP model): 1) the modified Altman Z score model, 2) the Pustylnick P score model and 3) the Chanos C score model as set forth by (Pustylnick, Anderson and Nugent, 2010) were tested to prove their predictive power. Using selected companies from the NYSE, the ability of the algorithms to predict inflection points makes it suitable as an early indicator for investment screening and stock selection. The three scores are shown to start to change when a firm is undergoing inflection point with share price changes following after a lag of one to two quarters. The ACP model is able to predict inflection point and thus is useful for forecasting future direction of share prices. Keywords: bankruptcy prediction, discussion, theoretical framework, empirical, Altman Z-score, MDA, Investment, financial ratios, stock selection.

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