



The Stock Market Valuation of Research and Development Expenditures

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Abstract:

We examine whether stock prices fully value firms' intangible assets, specifically research and development (R&D). Under current U.S. accounting standards, financial statements do not report intangible assets and R&D spending is expensed. Nonetheless, the average historical stock returns of firms doing R&D matches the returns of firms without R&D. However, the market is apparently too pessimistic about beaten-down R&D-intensive technology stocks' prospects. Companies with high R&D to equity market value (which tend to have poor past returns) earn large excess returns. A similar relation exists between advertising and stock returns. R&D intensity is positively associated with return volatility.