Impacts of Stock Market Crisis on Company Performance Evaluation by Economic Value Added

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A stock market crisis is considered to occur, when there is a sharp decline in the stock market index. During last months, world exchanges suffered huge drops. For example in London, the FTSE 100 index lost 31.3 % of its value in 2008, the worst loss in its 24-year history. There were similar losses even in New York, Frankfurt, Singapore, Tokyo etc.

Stocks constitute a piece of ownership in a company. Therefore the stock market prices represent a vote of confidence in the future of the listed companies and economy as a whole. Decline in stock values negatively affect investors' wealth. If investors' confidence is not restored and stock prices fall over a sustained period of time, it could indicate the start of a bear market. Normally the bear market occurs due to a decrease in corporate profits or a correction of overvaluation. During bear market only investors that need immediate liquidity sell theirs stocks. Long-term, value investors hold their investments and are more likely to emerge wealthy. However, the bear market may be prolonged for months or years (e.g. that of 1970's). Overall stock market prices decline could therefore inhibit from identification of good investment opportunities for a long time.

This paper deals with Economic Value Added (EVA) as one of the key company performance metric. The aim of the paper is to discuss, how the stock market performance affect EVA of listed companies and whether (according to research conducted by Stern Stewart) is EVA a critical driver of a company's stock performance.

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