Independent study title	FIRMS' PROFIT INSTABILITY AND THE CROSS-SECTION OF STOCK RETURNS: EVIDENCE FROM SET100 THAILAND
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ABSTRACT

This research evaluates the relationship between the firm's profit instability and cross-sectional stock returns in SET100 Thailand over the past 10 years from January 2014 to December 2023. Regarding risk-return tradeoff theory, it is suggested that higher profit instability firms measured by InsROA and InsROE are riskier, and should get higher returns to compensate for those risks. By using zero portfolio analysis both value-weighted returns and alpha from Fama-French (1993) three-factor model, the result shows a positive and significant relationship between the firm's profit instability and future return, especially when measured by InsROE. Moreover, even after adjusting for profitability, market beta, size, and value factors using Fama-Macbeth (1973) cross-sectional regression model, the findings measured by InsROE are still robust. These results imply that a higher firm's profit instability tends to have higher future stock returns in SET100 from January 2014 to December 2023. Therefore, this research shows profit instability, representing an operational risk, has unique predictive power to explain future stock returns beyond what is captured by traditional models. Moreover, the risk-return tradeoff theory is also supported by these findings as an investor will expect a higher return when firms' profitability becomes more fluctuating. Additionally, this research offers investors, fund managers, listed company

managers, and policymakers' insightful information to enhance efficient capital markets and effectively diversify portfolios to optimize returns.