Abstract

This paper attempts to test fundamental theory of finance which is risk and return relationship. For this purpose, we selected manufacturing sector listed in Colombo Stock Exchange. We used marked model to measure the risk factor of the selected companies. The sample period was 2000 to 2006. As the proxy to calculate market return for the market model the ASPI was applied. We found that there is a close relationship between risk and return of manufacturing sector. Another finding was the beta is not stable through time. Therefore, beta is not a proper indicator of company systematic risk factor.