

Evaluation Efficiency and Theoretical Review of Performance in Tehran Stock Exchange

Hamed Asl Hadad, Ahmad Asl Hadad

Msc in Business Management, Islamic Azad University North Tehran Branch
Assistant Professor in Industrial Engineering Dept., K.N.Toosi University of Technology, Tehran, Iran

Abstract: The purpose of this study is to evaluation efficiency and theoretical review of performance in Tehran Stock Exchange (TSE) and to investigate the impacts of publishing positive and negative information and news about the stock return of the companies listed in TSE on the investors' understanding of the persistence of accruals. Profit management for managers, provides certain trade benefits to the species that seem good at the end of the year. Descriptive statistics, Pearson correlation coefficients, linear regression with combined data, simultaneous equations system with combined data were used for to data analysis. The results indicate that accruals and ROE have a significant negative relationship with their capital structure. By comparing result of this research with result of the research in this field which was conducted, this paper concludes that some factors such as sanction are effective on full efficiency.

[Hamed Asl Hadad, Ahmad Asl Hadad. **Evaluation Efficiency and Theoretical Review of Performance in Tehran Stock Exchange.** *World Rural Observ* 2015;7(3):29-32]. ISSN: 1944-6543 (Print); ISSN: 1944-6551 (Online). <http://www.sciencepub.net/rural>. 6

Key words: TSE, ROE, Profit management

1. Introduction

The purpose of investing in stocks is to maximize profit and welfare of investors. The efficiency of capital market has been widely considered in financial studies. According to Fama (1991), an efficient market is a market where stock prices perfectly reflect all available data and on the other hand capital market reflects the impact of new information on stock prices timely and out of psychological biases [6]. Another assumption which is available in an efficient market is that in this market investors behave rationally when they receive new information [9]. The studies carried out in recent decades indicate the possibility of predicting future trend of stock by observing previous trends. Verification of this assumption is indeed an important challenge of an efficient market hypothesis which has attracted the attentions of capital markets of developed countries since 1970s and has been the governing theory since that time. The phenomenon is the irrational reaction of investors to new information and news. In other words, people show different reactions to new information under the influence of psychological and behavioral parameters. In some cases they are irrational reactions which generate some abnormalities like excessive increase or decrease of prices.

The purpose of this study the relationship between earnings management and capital structure is in Tehran Stock Exchange. Research hypotheses are as follows:

First hypothesis: the relationship between accruals and capital structure there is a significant company.

Second hypothesis: there is a significant relationship

between ROA and corporate capital structure.

Third hypothesis: there is a significant relationship between ROE and capital structure the company.

Huang and Ritter (2008) showed that debate center about capital structure should be the obvious advantages of the benefits of new stockholders for companies that have high value (they called companies with high value) but most of scholars disagreed with this view. Meanwhile, Graham and Harvey (2001) showed that managers of studied companies (especially those who have had little growth) believe that new stockholders financing is much cheaper than other sources. Ronald Masuis (2010) studied on the impact of changing capital structure on stock prices on the New York Stock Exchange (NYSE) and American Stock Exchange (ASE). In this study, he used the daily stock revenue and showed that significant adjustments in the price of the common stock, preferred stock and debt associated with the declarations were found. The replaced factors and causes of price changes were also studied. Evidence from this study is consistent with the effects of redistribution and taxation. Woo, Sersoo and Yao (2009) stated that most publishers who are acting under asymmetric information are based on the growth opportunities rather than existing assets that this might be due to the cheap cost of stockholders beneficent. Some researches has also been done on capital structure of the company in Iran that among them research by Mohammad Maleki pour (1996) can be noted that he studied on leverage effect on profitability. In this study, it was concluded that the use of financial leverage has no effect on the

profitability of companies and companies could not use leverage to increase profits per stock. In another study by Seyed Javad Delavari (1998) on effect of financing methods on the revenue ratio of stockholders beneficent of listed companies in Tehran stock exchange comparing methods of financing of companies that provided their funds through increasing capital or borrowing, it was found that financing methods had no effect on the revenue of stockholders beneficent. Jalal Sherzadeh (2004) studied on the effect of capital structure on profitability of listed companies in Tehran Stock Exchange (emphasis on the type of industry). The results indicate that there is no strong relation between capital structure and profitability of listed companies in Tehran stock exchange.

Beyoglu and Ivanov (2008) conducted a research entitled technical analysis of CANSLIM stocks. In this research, combining technical and fundamental analysis, adding CANSLIM investment method and using quality calculation system and analyzing Monte Carlo for evaluating research stages, they have concluded that one can achieve long-term strategy by combining moving average crossover strategy with CANSLIM method of William Oneil (Iavnov & Beyoglu, 2008).

Gillt (2005) in his research studied CANSLIM analysis in German CDAX stock market where he didn't confirm ability of this analysis to select leading stocks and believed that its reason was limitation of stocks in German CDAX (Gillt, 2005).

Wermke (2010) studying this method in German CDAX stock market has confirmed ability of this analysis to select leading stocks. Goal of this research is to use this combinatory approach in Tehran stock market and study whether one can have secure investment or not (Wermke, 2010).

Hirshleifer et al (2009) investigated the relationship of accruals and cash flows with return and stock amount. According to their findings, there is a considerable positive relationship between accruals amount and stock return. Also, there is a negative relationship between cash flows amount and stock return [8].

In Iran the following items are the background of the studies carried out in this field: Mehrara and Abdoli, (2008) investigated the role of good/bad news in stock return fluctuations. They investigated the relationship between return shocks or stock price (news) and conditional fluctuations. The experimental evidences of their studies show that the effects of negative price shocks (bad news) and positive ones (good news) on the future fluctuations of prices are not statistically different. This means that both good and bad news with the same size have the same influence on the conditional fluctuations of return [10].

In her study, Masoumeh Naderi, (2008) investigated the overreaction of TSE investors to the published news and information in both economic recession and prosperity conditions. He considered positive regulations as good news and negative regulations as bad news and investigated the investors' reactions in economic recession and prosperity conditions. Her results revealed that the market reacts to new information with delay which could be originated from different reasons like wrong change of information by investors, improper informing of news and lack of financial analyzers in TSE and so on. However, the results indicate the sensitivity of market to new information.

Her results showed that in some conditions the market shows an over, under, short term and weak reaction to news which is not statistically significant [7].

Mehrani and Nonahal-e-Nahar, (2009) investigated the possibility of increasing investments return and gaining abnormal returns through employing inverse transaction strategy in TSE. Statistical population of this study consisted of five basic industries. The time scope of the study was 2001 to 2006. Their results confirmed the overreaction of TSE investors. In addition, based on their arguments, the overreaction of Iranian investors to bad news is higher than their overreaction to good news [11].

Methodology:

This study was a correlation with data obtained from the type and number, the cumulative data analysis was performed. This information is used in corporate history. To test the research hypotheses and OLS regression method using 95% confidence level is used. Required to collect data from compressed file, which is published by the Tehran Stock Exchange and the SPSS software version 15 for data analysis. Statistical tests were used to help.

The data used in this study was collected in two stages. In the first stage, data was collected and reported by desk method from both Farsi¹ and English articles by referring to related websites in order to prepare theoretical grounds of the research. In the second stage, the data related to research variables was collected by referring to financial statements of the companies listed in TSE² as well as other related resources like Tadbirpardaz and Rah Avar-e-Novin databases.

In the present research, statistical population includes all companies admitted in Tehran Stock market among which the group of companies which has high activity volume and is among 50 top companies admitted in Tehran Stock market form space of research sample.

The descriptive statistics of the variables being

tested is presented in Table 1. In this table, the information related to the mean, maximum, and

minimum values of each variable are included.

Table 1: descriptive statistics of the variables

<i>Variables</i>	<i>Mean</i>	<i>Median</i>	<i>Maximum</i>	<i>Minimum</i>	<i>Standard Deviation</i>
RET	0.31	0.07	3.90	-0.68	0.6
EARN	0.21	0.09	1.08	-1.23	0.21
ACC	0.08	0.06	1.88	-1.33	0.28

Definition of the variables:

RET: dividend yield.

EARN: the profit adjusted to stock market at the beginning of the period
CFO: cash flow adjusted to stock market value at the beginning of the period.

ACC: accruals adjusted to stock market value at the beginning of the period.

Yield dispersion (standard deviation), net profit,

operating cash flow, and accruals are 0.70, 0.24, 0.30, and 0.34, respectively.

The independence of the error components model is fitted. This test statistic for the Durbin-Watson used. As considered the statistics of the 1.138, which is very close to 2, the independence of the error components regression model was fitted to be confirmed in this study.

Table 2: Regression Results

Durbin-Watson	Std Error	Converted R square	square R	r	Model
1.138	0.08	0.401	0.50	0.0703	1

Statistical Population

In Tehran Stock Market, 728 companies have been admitted among which about 434 companies have stopped working and other five companies have no clear condition. In other words, about 439 companies admitted in Tehran Stock Market are the companies whose stocks are not transacted in the stock market for different reasons. Therefore, we should select our sample among 289 remaining companies and transaction volume criterion (i.e. the number of transacted stocks per day) relating to stocks of the company an e the best choice for select of the sample. Since volume varies in different days, a mean volume is considered as criterion during three-month period.

Tehran Stock Market introduces 50 companies active in Tehran Stock Market based on the mentioned criterion which is called index of 50 top companies every three months. In this research, to select sample size, we have specified frequency of the attendance of different companies in list of 50 top companies from March 2011 to summer 2012 which is totally six periods, then, we selected the companies which attended continually during three periods to study hypotheses of CANSLIM on them and totally 30 companies were randomly selected.

Findings:

The result from estimation of valuation equation shows that the future profits coefficient (1.00), BAD two-valued variable coefficient (-0.23), coefficient of

operating cash flow variables (-0.48), product of BAD two-valued variable and operating cash flow (1.32), and coefficient of the product of BAD two-valued variable and accruals (1.13) are significant at the level of 1%, and the coefficient of accruals (-0.24) is significant at the level of 5%. Additionally, with respect to the results obtained from testing of this hypothesis, the production of the coefficient of BAD two-valued variable and that of accruals in the prediction equation is lesser than in valuation equation. This implies that in the presence of bad news the investors do not have clear understanding of stability level of accruals, and the stability degree conceived by them is significantly higher than actual stability level of these accruals. This would lead to occurrence of accruals price distortion phenomenon.

In the valuation equation, independent variables explain about 15% of changes in dependent variable (future stock return). The results from Mishkin's test (6.84) show that the coefficient of the product of BAD two-valued variable and accruals, in prediction equation (0.62) and in valuation equation (1.13), are significantly different. This means that in the presence of bad news, market cannot estimate the stability of accruals correctly. Therefore, this hypothesis is confirmed at the confidence level of 99%.

Conclusion:

Growth of quarterly EPS of a company by 20% above compared with the similar season in the previous year will show soaring movement of stock in

Tehran Stock Market.

In this section, we studied quarterly EPS of the sample stocks which is summarized in table and the stocks which have quarterly EPS of above 20% have been marked with +. Considering that only 13 out of 30 companies to be studied have these characteristics, the above hypothesis is not confirmed and doesn't hold true for the entire population.

To study relationship between the stocks which have growth of quarterly EPS by 20% above and total return of that stock in the last financial year, Pearson Correlation method has been used with SPSS software. Result of the performed analysis indicates that there is weak and reverse correlation between 20% growth of quarterly EPS and total return of that stock in the last financial year and significance test doesn't confirm correlation between these two variables.

References:

1. Adam Szyszka. From the Efficient Market Hypothesis to Behavioral Finance. Poznan University of Economics Poland, 2009.
2. Azizian, Afshin, 2007, Capital Newspaper, No. 489, p. 17.
3. Drobetz, Wolfgang, Fix, Roger (2005). "What are the Determinants of the Capital Structure? Some Evidence for Switzerland". Swiss J.
4. Eskandari, Rasoul, 2005, "The effects of fluctuations in stock prices in the Iran Stock Exchange", investment messages, No. 22.
5. Guido Baltussen. Behavioral Finance: an introduction Stern School of Business, New York University & Erasmus School of Economics, Erasmus University Rotterdam, 2009.
6. Huang, Rongbing, and Jay R. Ritter, (2008), Testing the market timing theory of capital structure, Journal of Financial and Quantitative Analysis (Forthcoming).
7. Ivanov, B & Beyoglu M. (2008). *Technical Analysis of CAN SLIM Stocks* (Doctoral dissertation, Worcester Polytechnic Institute).
8. RahnamayRoodposhti F. & Torbati M. (2007). Studying and Explaining Usefulness of CANSLIM method for Evaluating Selected stocks of Tehran Stock Exchange, Economic Stock Exchange Magazine, No. 63&64.
9. Reilly, F. K. F. K. R., & Brown, K. C. (2011). *Investment Analysis and Portfolio Management (with Thomson One-Business School Edition and Stock-Trak Coupon)*. South-Western Pub.
10. Safdar Hussain Tahir(2009). "Impact of earning management on capital structure of listed companies on Karachi Stock Exchange". Electronic copy available at: <http://ssrn.com> 9-9.
11. Masulis, R. W., (2010), The Effects of Capital Structure Change on Security Prices. Samadi S. & IzadiNia. N & DavarZadeh. M. (2010). Application of Technical Analysis in Tehran Stock Exchange, Accounting Progresses Journal of University of Shiraz, second period, No. 1.
12. Shahdaei M. A. (2005). Fundamental Analysis in Capital Market, Chalesh Press, Tehran.
13. Thomsett, M. C. (2006). *Getting started in fundamental analysis*. Wiley.
14. Wermke J. A. (2010) A Feasibility Analysis of the U.S.-based CAN SLIM Investment System Applied to German HDAX Stocks, Bachelor Thesis at Morgan Stanley, International University Bad Honnef.

7/27/2015