The Impact of Capital Increase on Stock Performance of Tehran Stock Exchange Listed Companies

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Abstract: The present study examines the impact of capital increase on stock returns of companies listed on Tehran Stock Exchange during 1994-1998, and determines the effect of capital increase on stock returns. After reviewing the literature and theoretical framework based on the content, the fundamental question was whether capital increases to finance the companies would increase efficiency of companies in Tehran Stock Exchange or not. In other words, this study seeks to answer these two questions: 1) is there any relationship the percentage of capital increases and the rate of monthly returns of stocks; 2) is the average return on equity within capital increase more than other months? The methodology is correlation- descriptive. The study population included all companies listed on Tehran Stock Exchange from 1994 until the end of 1998 that all of them were selected as study sample. Due to the intended characteristics, 397capital increase was observed. Data were collected from documents in Tehran Stock Exchange, yearbooks, monthly and weekly magazines as well as books and theses and specialized financial publications. The collected data were analyzed by using EVIEWS. In analyzing the data, the statistics were calculated for variables and because the sample size of the study was equal to sample society, it did not need to use analytical methods to generalize the results to the community. In fact, the results of descriptive statistics confirm the results. In addition, the relationship between the variables through the Pearson correlation coefficient was investigated. The results showed that the percentage of capital increase and the rate of stock returns over the study period had a significant relationship. The average rate of return on shares in the limited time of capital increase was higher than other months.

Keywords: capital increase, rate of return on equity, financing, statistical analysis

1. Introduction

Companies often use a variety of tools to provide the required financial resources the major of which include using bank credits and loans and distributing bonds and securities. But the limited funds of the banking system and the complexity of getting license for distributing issued bonds caused relying Tehran Stock Exchange listed companies too much on increasing capital as the main source of financing. In which causes negative effects on the financial structure of the company.

Therefore, considering the importance of maintaining a balance between different types of financial resources required for listed companies it is essential that other forms of financing are addressed.

Today, the stock market performance in developed countries is used as an indicator to assess policies, financial business and changes. Stock market even in economies that they have well-developed banking sector have good performance. The stock market is a good tool in order to diversify risk, reduce conflict of interest between creditors and improving the flow of information and corporate governance. The substitution of debt with capital does not have any priority with each other. This fact is especially true in countries with developing stock market. In these countries, despite the fact that the development of stock market investment creates conditions for wider action, selling of new shares is not the sole source of financing for investment.

Equity markets by providing better information and lower costs for investors and financial intermediaries control reduce the cost of debt and equity costs. Some of the new investments in the development of the stock market are supported by bank loans and selling bonds. So in the first phase, distribution of the new stock for developing stock market is done as the complement for bond not as a substitution. In many developing countries, banks predict their activities would be lower in parallel with the growth of the stock market volume. However, analysts believe that the primary advances in the performance of developing stock markets caused the increasing debts' ratio to the stakeholders' interest in companies. At the result, the bank's activities are increased. The degree of development of financial markets especially the stock market for providing companies' financial recourses is the decisive factor. Most financial literature regards two features of liquidity power and optimal performance for the stock

market. Since most companies listed on Tehran Stock Exchange have begun their activities with low capital, they need to have more capital after expanding operations and development projects, in which due to the limitation of the banking system and the complexity of the getting license of issued bonds' distribution increase the capital as the only way of providing financial resources. After the revitalization of Tehran Stock Exchange in 1989, the rate of listed companies in Exchange is has been raising so that the annual growth of the capital increase about 216% from 1990 to 1995.

Firms' Reliance on raising capital and inappropriate use and refusing to utilizing other financial tools for funding created problems in the financial structure of listed companies on the stock exchange and at the result, the profitability of companies was reduced and assets in exchange led in other economic activities. In order to sustain public investment it is necessary the returns received by listed companies is analyzed to determine whether these companies can win a reasonable return of investment and capital costs or not?

Continuing to raise capital in a manner that was expressed without an appropriate return with a high cost of capital Tehran Stock Exchange in the future will be in jeopardy. This study seeks to analyze this issue and its impact on stock returns and on the companies' productivity related factors.

Business units for providing the required financial resources to achieve various goals use different tools. That temporary and short-term needs issue bonds with short-term maturities or take loan and bank time coverage. While for providing capital in order to implement developmental projects try to issue new shares or take long-term credit from the banking system or even to publish long-term securities with drawn maturities. So the method of financing s very closely related to type of its use.

Restrictions on the use of financial resources in the banking system, lack of facilities and grounds for issuing the bonds, listed companies in stock exchange of Tehran and forced to raise capital (common equity) pushed it as the remaining financing market.

Although raising capital is one of the final financing solutions, but due to the direct repercussions it would have on the income shares it should be monitored. In industrialized countries, primarily responsible for licensing the High Council for the monitoring of the capital markets (SEC) is responsible for increasing the company's capital. In the Islamic Republic of Iran because of the absence of a comprehensive law governing the capital market, the regulations should be ratified so that listed companies in Tehran stock exchange can increase their capital only if they have some qualifications.

The study entitled "The impact of the capital increase in stock performance of companies listed on Tehran Stock Exchange during the period of 1994 to 1998, aimed at investigating the relationship between the increase of capital as a means to finance and companies' efficiency.

2. Review of the Related Literature

In this section, a review of research in the field of the study is provided.

Manzoor (2002) examined the impact of oil price fluctuations on macroeconomic variables by using his regression vector approach. Results of model estimation consider the effect trend from the impact of oil prices, oil revenues and government spending to other variables. Saeidi and Amiri (2010) examined the relationship between Iran macroeconomic variables with Tehran Stock Exchange index in a 7-year period by using quarterly data. The results showed there is not a significant relationship between the consumer and the market exchange rate with stock market index. However, crude oil prices with the stock market index shows a significant relationship, but in reverse. Ashot, et al. (2011) in a study investigate the effect of excess market return on their excess stock returns in Tehran Stock Exchange. In this study, given the importance of the relationship between risk and return for investors, the effect of excess market return on excess stock returns has been investigated. And to measure the precise impact of excess market return IMV, HML and SMB variables were used. In addition, in this study in order to reduce the correlation between variables portfolio formation method is used. The analysis was in a time series model from April 1995 to March 2005. The results of time-series analysis indicated a significant effect of excess returns is market research. Finally, conclusions, the management application recommendations and suggestion for future research were provided.

Pakizeh (2010) in a study investigates the relationship between stock market's volatility and returns. In this paper, the relationship between market returns and volatility expected and unexpected results in floor models, including two arch symmetric and asymmetric models J. mushrooms and E-mushrooms in Tehran Stock Exchange and international stock markets is examined. To investigate the relationship out-of-sample methodology was used. In this regard, the anticipated out-of-sample volatility instead of inside sample was used. The results indicate that portfolio theory in Tehran Stock Exchange, Istanbul Stock Exchange and the NASDAQ stock is not true. The results also indicated the rejection of theories of pricing assets in which elaborated the positive relationship between volatility and returns. This relationship was negative in the terms of stock and

shows low determination coefficient. In spite of low determination coefficient in the terms of stocks, the asymmetry hypothesis or leverage effect has been confirmed in most of them. This means that the decline in stocks of exchanges (negative return) increased the company's financial leverage and also increased the volatility of stocks is being more on the edge.

Azizi (2004) in a study empirically examined the relationship between inflation and stock returns in Tehran Stock Exchange. The purpose of this paper is to present an empirical analysis of the relationship between inflation and stock returns in Tehran Stock Exchange. The topic represents a different perspective and different literature about the relationship between stock returns and inflation in which that there is no consensus among economists. Some of them advocate the positive relationship and a number of other support negative correlations between stock returns and inflation. While others believe there is no significant relationship between these two variables. In this article, it is tried to present an overview of some empirical research, the relationship between inflation and stock returns in Tehran Stock Exchange in the period 1998-2003 has been empirically tested and the results were compared and contrasted the with other studies' results. In this study, by using conventional econometrics methods, VAR and Granger causality, the relationship between inflation, output and the stock price index were tested. The results indicate that inflation explain the cash return index and total return index (price and cash). Nevertheless, it does not explain stock price index. On the other hand, cash returns, total return (price and cash) and the stock price index do not explain inflation. Mehrani and Mehrani (2003) in a study examined the relationship between profitability and efficiency ratios of Tehran's stock exchange market. Capital market in Iran is an unknown market. Every day thousands of investors invest their money in the hope of achieving more wealth in which some achieve their goals and some of them lose their capital. Tehran Stock Exchange market knowledge from different aspects and angles can help the investors to predict the future of the market and its changes, reduce investment risk, and achieve greater efficiency.

Stock return is one of the important factors in choosing the best investment. One dimension of this market knowledge understands of the economic entities activity. Companies that are active in Tehran Stock Exchange are associated with two types of market. These markets include commodity markets and financial markets. Although commodity market is divided to product market and the market of production factors and financial market is divided to capital market and money market. Evaluation of the

managers' performance has a direct relationship with company performance in the product market. In product market, profitability is a function of the product life cycle, industry life cycle, and activity type, etc. Each group of financial statements users investigates the success of an activity in the Stock Exchange from their perspective. One of the criteria for the success of an industry or activity is financial ratios. In Tehran Stock Exchange market at the end of 2002 there were more than 320 companies that have been classified in 70 different types of activities. This study examines the relationship between stock returns and profitability ratios of different activities. Research was conducted for a period of two years, 2000 and 2001 and OLS regression technique was utilized. Means of independent and dependent variables including profitability ratios and return on equity in the period was calculated and the relationship between them was investigated. The results show that some ratios such as return on assets and return on equity are correlated with stock returns. On the contrary, criteria such as revenue growth, sales growth for predicting stock returns are not an appropriate measure. Also the changes in some variables such as return on equity and return on assets can predict stock's returns changes.

Investigating the effects of new shares supply as a means to finance was began by Professor Smith's research in 1977. He concluded in his research that the event has a negative impact on stock prices. In this context Kurvar and Mazulis (1983), skate and Mullins (1986) conducted a similar empirical research; all research results indicate the negative reaction of the capital market against the announcement of new shares. Haley and Palio (1990) examined empirically the new shares discourse announcement. In addition, they concluded that at first, announcement of new shares had a new vision of the future of the company to investors. Second, the information is about company's stock systemic risk rather than on its future earnings. Myers and Majlof (1995) in a study tried to compare returns before and after capital increase in order to offer a new strategy for companies to issue new shares while they are looking for investigating the relationship between the share capital increase and the efficiency changes. The results led to split the company into two groups, overvalue and undervalue. He announced that the following companies or companies with a market capitalization value less than the true value. As long as the achieving actual price on the market, they must delay in the issuance of shares. On the other hand, the company or companies that have a market value greater than the actual value should not rush to issue new shares. Chen, et al. (1986), examines the relationship between some economic variables and the behavior of the stock

market in New York between 1958 and 1984. In this study, the impact of systemic risk on the stock market index is examined. The results showed that real per capita consumption of oil prices did not have a significant effect on the stock market. They showed that inflation in the short term reduces stock prices and in long-term has a positive relationship with stock prices. Round and Sitem (1999) examined the relationship between stock returns and macroeconomic variables by using their policy-regression multivariate operation in Norway for the period of 1974-1994. They found that stock returns show a negative reaction to changes in interest rates. High dependence of Norway on oil is visible in the stock market, so that stock returns are positive sense and react to changes in oil prices. Sadowski (1999) examined the relationship between oil prices, stock returns and interest rates in America monthly from January 1947 to April 1996. The results show that the oil price plays an important role in the economy so that the positive momentum in oil prices reduces returns inflation. While momentum of real stock returns have a positive impact on interest rates. In addition, the evidences suggest the asymmetric impact of oil price fluctuations on the economy. Park & Ratti (2008) in a study evaluate the impact of oil price shocks on the stock market in the United States and thirteen European countries. They used multivariate VAR models and concluded that oil shocks have a significant impact on returns inflation of the studied countries. Kupta and Modiseh (2013) explore the dynamic relationship between the different oil shocks and the South African stock market returns by using a structural regression vector. They concluded that for a country that imports oil like South Africa, stock returns just increased with oil prices when the World Economic activities were improved. Daguerre and Hariri (2013) examine the impact of oil prices on the Stock Exchange Lebanon. They used self-regression vector model for research modeling. They found that Lebanon stock market fluctuations are affected by the price of Brent crude. For individual shares on the market, they investigated the impact of oil prices on them and showed that individual shares are affected by oil price shocks. Zhou and his colleagues (2014) examined the impact of crude oil price fluctuations on stock returns in Asian countries. Their study shows that the impact of oil price fluctuations on stock returns in these countries after the financial crisis is weak. However, they expressed in this article that the impact of oil price fluctuations on stock returns in these countries are not poor before the economic crisis. In this study, they used the GARCH model to analyze the data. Aluei, et al. (2013) examined the structural dependence between crude oil prices and its impact on the exchange rate of dollar. They showed

that changes in oil prices have impacts on the exchange rate. GARCH model is the approach that was used in their research. Joni (2013) studied price fluctuations and stock market in Saudi Arabia. The self-VAR model was used to analyze the data. The results show that the volatility of oil prices influence on the stock exchange in Saudi. Benada (2014) studied the impact of oil price changes on stock returns of the Czech. He said that the oil prices have an impact on production costs and thus changes in the cost of production will impact on shareholder value. In this study, given Czech is part of the EU; exchange efficiency is influenced by fluctuations in the euro exchange rate against the US dollar. As a result, this parameter is considered in this study. Bashir and his colleagues (2012) examined the effect of oil price and the exchange rate on the stock markets of emerging countries. They used structural VAR model to analyze the data. The results show that the financial markets rising led to a rise in oil prices.

3. Material and Methods

This research is an applied study. The descriptive-correlation method was used. The present study describes research objective, consistent and genuine characteristics of a situation or a subject and tries to deduce what it is without any interference or subjective report. And concrete results take from the fact, of course, sometimes comparing and evaluating events are the characteristics of descriptive research that here this aspect was also considered. Correlation method (consistency) is also used when two or more categories of information that related to a group or a set of data from two or more factors under effect of changing one or more other factors. Of course, correlation does not necessarily aim to identify causal relationships but it is determined which variables in negative or positive ways have relationships.

By investigating of correlation between the variables, three basic points should be made clear:

1. Is there any correlation between the variables?

2. If there is not any relationship, the study should be dismissed and if there is any correlation, it should be measured.

3. What are the correlation between the variables and their direction? Whether an increase in one variable will increase the other variable or a decrease in one variable will decreases the other variable in which the correlation is positive. If by increasing a variable, the other one decreases or vice versa in which the correlation is negative.

The hypotheses and research questions are as follows:

The basic question that this paper seeks to answer is whether a capital increase for financing

increase the efficiency of companies in Tehran Stock Exchange or not?

The hypotheses of this study are as follows:

1. There is a negative relationship between the percentage of capital increase and average rate of return on equity (monthly returns) of the companies.

2. The efficiency average in the range of capital increase time is more than the other months.

In this study, the following general model was used for determining stock returns in a given period (actual) and the overall efficiency was calculated.

$$R = \frac{P_1 - P_\circ - D_1}{P_\circ} \qquad (1)$$

where

R1: the return on equity at time t

P1: stock price at time t

D: stakeholder's earnings involve benefits of cash interest, share interest, payment priority and share dividend interest.

1. Dividends benefits: The benefit will be divided during the year that was passed by the Assembly.

2. Share interest benefits: the percentage of bonus shares multiplied by the stock after the adoption of a share dividend.

$$OVL = \beta \quad (p_{S-1} \times \beta) = \text{Share benefits}$$

advantages

3. Priority benefits: the benefits that stakeholders acquired after capital increase as follows:

Priority benefits $= (P_{1 \times 1} \times \alpha) - (K \times \alpha)$

(Increase capital Percent × underwritten amount) - (stock price after capital increase × percent of capital) = priority benefits

- Stock splits benefits: involve the interest that stakeholders gain through share split
- The stock price after the stock × split stock split rank = benefits stock split

4. Results

At first, each of the hypotheses was raised and then by using descriptive statistics was analyzed to discuss them.

H1: There is a negative relationship between capital increase and the average percentage rate of return on equity (monthly returns) of the companies.

To investigate this hypothesis the correlation between the percentage of capital increase and the difference between stock returns over three months ago and later (D) for the entire company (in the years 1994 to 1998) was calculated that the results seen in the following table:

Table 1. Correlation between Capital Increase Percentage (CIP) and the rate of return on equity (in entire companies)

Variable	Mean	SD	r	r^2	P	N	a	b
CIP	73.117							
Difference of previous three months and later (D)	43.0-	85/16	3970.0-	0015.0	429/0	397	0500.0	004.0-

Thus, to determine the extent of correlation between these two variables r was calculated as follows:

$$r = \frac{c_{ov}(x, y)}{\sqrt{V_{(x)} \cdot V_{(y)}}} = 0.04$$

According to the sample, the confirmation of the correlation with high intensity and negative (or inverse) between the two variables is desired.

It can be concluded that there is a negative correlation between the rate of return on equity and total capital increase of firms. The correlation coefficient is calculated on the amount of low and zero. It should be noted that the correlation coefficient between -1 (most negative correlation) to +1 (the highest correlation) could be change.

If the calculated correlation coefficient is closer to zero, the relation is weaker and vice versa. Thus it becomes clear that there is no correlation between the percentage increase and the stock return.

As the sample is equal to the population, so in this case it can be concluded that there is a correlation between the rate of return on equity and investment increase in the surveyed companies (during the period). The calculated determination coefficient is $r^2 = 0.00015$. This means that 0.15 percent dependent variable changes is related to the independent variable. In other words, it can be concluded that by control of the shadow effect of variables (without the intervention of other factors) 0.15% changes in stock returns caused by "increase of capital". The same calculation for the first hypothesis with respect to capital increase and the average difference in stock returns over a month before and after the convention (DD) has been conducted.

The results can be seen in the table below.

Table 2. The correlation between CIP and the rate of return on equity (in entire companies)

Variable	Mean	SD	r	r2	P	N	a	b
CIP	73.117							
DD	14.2-	02.35	0007.0	0000.0	98911.0	392	155.2-	0002.0

The correlation coefficient calculated in this case unlike the previous situation (D) is positive. However, the point is that it's very small and there is little correlation coefficient (r =1.0007) so that coefficient was calculated at around zero. This means that although there is a positive relationship between capital increase and return on equity (one month before and after assembly) in the company during the period under review, but this relationship is minimal. It seems that changes and examined relationship between in the years of 1994 to 1998 are different from each other. It means that the relationship between the percentage of increase in capital and stock returns in each year may vary by years. So this relationship is separately evaluated each year and the correlation coefficient for each year due to the differences in the three months average stock returns before and after assembly (D) and the difference between stock returns before and after assembly (DD) is calculated.

Table 3. The correlation between capital increase and return on equity in 1994

Variable	Mean	SD	r	r2	P	N	a	b
CIP D	216.108 465.2							
CIP DD	216.108 386.1	7552.70 2592.25	00743.0-	00006.0	95871.0	51	67346.1	0026.0-

As can be seen by calculated correlation between the percentage of increase in capital and stock returns during 1994 (in each case D and DD) was negative or zero.

Table 4. The correlation between capital and return on equity in 1995

Variable	Mean	SD	r	r2	P	N	a	b
CIP D	114.113 070.0	477.166 246.19	00931.0	00009.0	92489.0	105	0730.0	00108.0
CIP DD	114.133 432.4-	477.166 310.52	02298.0	00053.0	81604.0	105	3935.3-	00723.0

In 1995, the correlation coefficient calculated in both cases is negligible and zero. In other words, there was not also a significant relationship between the percentage of capital increase and stock returns during 1995.

Table 5. The correlation between the percentage of increase in capital and stock returns in 1996

Variable	Mean	SD	r	r2	P	N	a	b
CIP D	9245.71 0878.0-	8415.72 4113.6	04834.0	00234.0	73103.0	53	39385.0-	00426.0
CIP DD	9245.71 0834.0	8415.72 9327.15	05817.0	00338.0	67905.0	53	83180.0	01272.0

The results suggest that due to the calculated correlation coefficient, there is no significant relationship between the percentage rate of return and capital increase and it is almost zero.

Table 6. Correlation between investment and return on equity in 1997

Variable	Mean	SD	r	r2	P	N	a	b
CIP D	9245.71 0878.0-	8415.72 4113.6	04834.0	00234.0	73103.0	53	39385.0-	00426.0
CIP DD	9245.71 0834.0	8415.72 9327.15	05817.0	00338.0	67905.0	53	83180.0	01272.0

As can be seen, calculated correlation coefficient in this year in both cases was very low and zero indicating no relationship between the percentage of capital increase and the rate of return on equity in 1997.

Table 7. The correlation between the percentage of increase in capital and stock returns in 1998

Variable	Mean	SD	r	r2	P	N	a	b
CIP D	5000.76 3778.0	575.104 461.11	12848.0	01651.0	31164.0	64	45500.1	01418.0
CIP DD	5000.76 5895.0	575.104 625.13	05096.0-	00260.0	68924.0	64	09742.1	00664.0-

Results for 1998 show that the correlation coefficient was calculated to zero and thus it can be concluded that there was not a significant relationship the increased capital and stock returns in 1998.

H2: The average return on equity within capital increase period is more than the other months.

To investigate this hypothesis, the average return on equity in capital increase month and a month before it (UP2) and average return on equity in the remaining ten months of the year (UP10) is calculated.

As shown in the table below, the average of UP2 is 6.28 and the average of UP10 was 18.4.

Thus, it turns out that the average return on equity within capital increase has been higher than other months.

Table 8. The difference between stock returns in capital increase month period and other months (in entire companies)

Variable	Mean	SD	N	Mean Difference	SD Difference	df	P
UP2	2839.6	492.22					
UP10	1768.4	724.6	397	10713.2	4648.22	396	06237.0

The same calculations were made for each year that the results of which are shown in Tables 9 to 13:

Table 9. The difference between stock returns in the range of the increase in capital and other months of 1994

Variable	Mean	SD	N	Mean Difference	SD Difference	df	P
UP2	718.12	893.29					
UP10	671.5	657.6	51	0470.70	410.30	50	1043.0

Table 10. The difference between stock returns in the range of the increase in capital and other months of 1995

Variable	Mean	SD	N	Mean Difference	SD Difference	df	P
UP2	264.10	290.29					
UP10	760.6	565.6	105	5044.3	737.29	104	2299.0

Table 11. The difference between stock returns in the range of the increase in capital and other months of 1996

Variable	Mean	SD	N	Mean Difference	SD Difference	df	P
UP2	1253.6	678.20					
UP10	3776.4	046.8	124	7476.1	725.20	123	3495.0

Table 12. The difference between stock returns in the range of the increase in capital and other months of 1997

Variable	Mean	SD	N	Mean Difference	SD Difference	df	P
UP2	6006.0-	014.5					
UP10	5683.0	6016.2	53	168.1-	2877.5	52	1135.0

Table 13. The difference between stock returns in the range of the increase in capital and other months of 1998

Variable	Mean	SD	N	Mean Difference	SD Difference	df	P
UP2	6341.0	1602.8					
UP10	3464.1	7136.3	64	7123.0	7374.8	63	5166.0

As it can be seen in this table separately, in the boom years of 1994 to 1996 the results show an increase in the average return within the time of capital increase and the returns in the other months of the year were less.

However, these outcomes as seen in Tables 12 and 13, from 1996 to 1998 recession the returns were lower than other months of the year.

5. Discussion and Conclusion

Hypothesis testing showed that the correlation coefficient is calculated first is negative and second was very minor and insignificant. The results showed that there is a poor relationship between rate of return on equity and increase investment in the surveyed companies (during the period). The calculated correlation coefficient is so weak that it can be assumed zero so that results show there is not significant correlation between the percentage of increase in capital and stock returns. The calculated coefficient of determination shows that by controlling the effects of other variables (the lack of involvement of other agents) just 15/0 percentage of changes in stock returns related to "capital increase" that the value is very negligible. The second hypothesis tests also showed that the average return on equity at the time of capital increase is more than other months. In other words, the average returns on equity at the time of capital increase and a month earlier is more than the average stock returns during the remaining ten months of the year.

A) Suggestions for the stock market authorities

1. Given the fact that some companies' figures and statistics are not easily available and also given the need for investors to know more about the companies that have capital increase, we suggest that the authorities create favorable stock market information environment in which researchers and investors can easily obtain the required information and do statistical analysis of measures and provide the environment for more efficient investors' decision-making.

2. Officials can measure market rate of return for different time periods (daily, weekly, monthly and yearly) as one of the decision criteria and give them to the users (investors and researchers). The stock market authorities with regard to their expertise and familiarity with the issues of the capital market can provide advice as a source of information for investors, especially those who have decided to increase capital.

B) Suggestion for stock investors

1. Given that there is no significant relationship was found between the percentage of increase in capital and stock returns, it is recommended that investors instead of relying on earned abnormal returns on investments search in EPS of firms because according to Gordon formula, stock returns is embedded in EPS.

2. Given that the average return of the stock at the time of capital increase is more than the other months, investors who are looking to earn additional returns in the stock can buy shares in this period.

C) Suggestion for researchers

Given the diversity of issues on the stock exchange and by looking at the research questions and information researchers can check the following areas for future research:

1. Given the fact that in this study, there is no significant relationship was found between the percentage of increase in capital and stock returns, it is recommended that future researcher investigate relationship between increased investment and shareholders' behavioral considerations on the purchase of shares.

2. To invest in shares of a company based on Gordon formula companies' EPS should be considered. Because according to the results obtained in this study capital increase is not the only way of investors for buying shares of a company. Therefore, it is recommended that in future studies the relationship between EPS of listed companies on the stock exchange and increase the overall level of capital in different industries will be examined.

3. Investigating the companies that used raising capital as a way to provide financial resources and calculating its impact on the rate of their shares.

4. Considering the realm of the research time, we have witnessed two different periods of time, (the boom years: 1994-1995, years of stagnation: 1996-1998) so the relationship between the increase in capital and economic and political development in different periods can be investigated it means that between boom and bust how stock exchange companies raise their capital.

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