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Original Article

Survey Relationship Cash from Financing Activities with Stock Returns in Listed Firms in Tehran Stock Exchange

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ABSTRACT

Capital Asset Pricing Model (CAPM) is one of the most useful methods for predicting stock return. According to this model, systematic risk as measured by beta, the only variable that has the ability to forecast returns. Studies in Iran and other countries in field of predictive ability of this model and use the other variables, suggests that in addition to the variable beta, there are other variables such as cash from financing activities that have predictive power for stock returns better than beta. In the present study, relationship mentioned variables whit stock returns, examined in a 9-year period from fiscal year 2002 to 2010 in Tehran Stock Exchange. Using the software E-views, data collected from the firms tested in the pooled least squares regression models and found cash from financing activities no significant correlation with Stock Returns.
Keywords: Stock Returns, Cash from Financing Activities, Capital Asset Pricing Model

INTRODUCTION

One of the main objectives of investors to invest in securities; is annual capital gain plus interest, in the other words, objectives of investors to invest is to maximize their wealth. To accomplish this goal, they try to invest in assets that have low risk and high returns and investors are encouraged to invest in financial assets, must return the assets is greater than the other options. If someone invests in securities that rate of return that is higher than the expected rate, by increasing the value and market price of these securities, his wealth will increase.

Then determining the amount of influence factors that Impact on the return of the firm, is very important both for investors and for financial managers. One of the most widely used models is the capital asset pricing model. This model that based optimal portfolio of Markowitz, states that there is positive linear relationship between systematic risk and expected returns of securities and are not expected to other variables can play role in explaining stock returns.

Nevertheless results of recent studies it suggests that beta coefficient as the indicator of systemic risk, alone could not explain the difference in average returns and in addition to beta there are other variables such as cash from financing activities that have evaluated the Cross-Sectional stock returns. As regards whit combination of the enumerated factors to predict stock returns to find better results; in this paper an attempt is evaluated relationship cash from financing activities with stock returns in Tehran Stock Exchange to the action to provide a useful tool for potential investors is the optimal decision in exchange for stock options.

A large body of evidence documents a negative relation between external financing transactions and future stock returns. Future stock returns are unusually low in the years following initial public offerings [1]; future stock returns are unusually high following stock repurchases [2] equity offerings [3], debt offerings [4] and conversely bank borrowings [5]. Dowlatabadi [6] survey effects of financing method on stock return and stock price and concluded that the impact on long-term loan on stock price is higher. Also increase in investment compared to bank borrowings, has a greater effect on stock return. Ritter [1], in a recent review of this literature, notes that this relation holds across a broad range of corporate financing activities. He concludes that despite the large expenditure of resources on analyst coverage, there is little academic work emphasizing the importance of their role in marketing corporate financing activities. Ritter [1] surveys research investigating the relation between corporate financing activities and future stock returns and conjectures that this relation is consistent

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across different types of corporate financing activities. Specifically, he notes that activities raising (distributing) cash are associated with lower (higher) future stock returns. Zahmatkesh [7], Valipour [8] and Baghani [9] concluded that different ways of financing, no significant relationship with stock return.

MATERIALS AND METHODS

Statistic Society in research Due to subject, type the required information and its application includes all firms listed in Tehran Stock Exchange is in the time domain 9-year-old in of fiscal year 2002 to 2010. Samples in this study were selected using the following screening criteria:

- Is not including banks, financial institutions, investment and leasing.
- To compare the observed variability, financial year ending 29 March each year.
- The firm during fiscal years 2002 to 2010 fiscal years has not changed.
- Until the end of 2002, the firm is listed on the Tehran Stock Exchange and during the years 2002 to 2010 is not out of the Tehran Stock Exchange.
- The financial statements of these companies are available.

In first step to compiling research theoretical fundamental is used of library method and in the second step, to collecting Intended data is used of financial statements and information presented to portfolio organization. Research method is a correlation namely survey there is a correlation between the variables through of the regression that will be done by using the past information. For collecting information relating to the cash flow statements was used from Tadbirpardaz software system, information assets on the balance sheet and stock returns from Rahavard Novin software system. Then information with use Excel Software and after making the necessary adjustments import the E-views software and analysis is performed through pooled least squares regression.

RESULTS

For a good analysis of data requires that the data be normally, hence the normality test has been performed. Results of this test has been given in Table 1. The results from test is normal show that at this stage number of variables contained in the P-Values in Table 1 are greater than 5% and it is indicating that the data are normal.

The results of Table 2 shows there is a very small negative correlation (-0.01) between net cash from loan and pay back loan and cash capital increase that according to larger the significance level of 5%, this relationship is not significant. Net cash from financing activities with its components namely cash flows from financing activities related to shares and loan is positive and significant correlation. Correlation all variables are related to financing activities with stock returns is negatively that in between, the net cash from financing activities is more correlated with stock returns.

Table 1. Normality Test

Variables	Average	maximum	P-Value
Stock Returns	3.3836	0.052	0.054
Cash from capital increase	0.041	0.174	0.051
Net cash from loan and pay back loan	0.046	0.106	0.52
Net cash from financing activities	0.043	0.030	0.069

Table 2. Pearson Correlation

Variables	Pearson Correlation Test	Cash from capital increase	Net cash from loan and pay back loan	Net cash from financing activities	Stock Returns
Cash from capital increase	Correlation Coefficient	*	-0.01	0.49	-0.14
	Significant	*	0.80	0.00	0.01
Net cash from loan and pay back loan	Correlation Coefficient	-0.01	*	0.70	-0.10
	Significant	0.80	*	0.00	0.05
Net cash from financing activities	Correlation Coefficient	0.49	0.70	*	-0.21
	Significant	0.00	0.00	*	0.00
Stock Returns	Correlation Coefficient	-0.14	-0.10	-0.21	*
	Significant	0.01	0.05	0.00	*

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Table 3. Results of the regression model

Type	C	Cash from capital increase	Net cash from loan and pay back loan	Net cash from financing activities	Durbin Watson
Coefficients	0.34	-0.249	*	*	1.87
P-value	0.00	0.284	*	*	
Coefficients	0.25	*	0.006	*	1.91
P-value	0.00	*	0.971	*	
Coefficients	0.39	0.310	-0.146	*	1.87
P-value	0.00	0.204	0.469	*	
Coefficients	0.34	*	*	-0.435	1.86
P-value	0.00	*	*	0.163	

The results of Table 3 shows regression coefficients cash from a capital increase is equal to -0.310 and regression coefficients net cash from loan and pay back loan is equal to -0.146. According to significant level calculated for variables that the 0.204 and 0.469 and greater than 5%, therefore coefficients determined is not significant regression coefficients. Then between cash flow from financing activities and stock returns there is no significant relationship.

DISCUSSION

The results of the test hypothesis showed that there is no significant relationship between cash flow from financing activities and stock returns. In this case, it must be said there are different theories and theories about capital structure and different effects of different methods of financing on stock returns and Predict positive and negative relationships between stock returns and financing activities because changes in Financial Leverage and or creation different Information about investment opportunities and cash flows, does not apply in Iran's capital market.

Among the reasons for this may be lack of attention market in relation to information issued about finance activities at financial statements. Another reason could be related to the investment. So perhaps the firm value depend firm performance and not to the capital structure and that stock returns were not impressed with their financing activities.

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