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Studying the effect of financing methods on stock returns in Tehran Stock Exchange

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ABSTRACT

For the purpose of investment and providing financial plans, identifying available resources, whether domestic or foreign, is of utmost importance. In addition, management has always faced such decisions and should choose these resources considering the cost and the effect they have on shareholders' wealth, corporate value, and stock price. Besides, various ways of financing, as one part of the policies of the companies, can affect stock returns. This study has investigated the effects of financing methods on stock returns in Tehran Stock Exchange. The results showed that financing has a positive impact on stock returns through equity and receiving long-term loans, but financing through short-term loans reduces stock returns of the firms. Moreover, there was no significant relationship between financing through retained earnings and stock returns. In other words, companies financing through equity or receiving long-term loans have a better performance and higher stock returns due reducing Future Value of Money.
Keywords: financing through equity, long-term financing, stock returns, generalized least squares Received

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INTRODUCTION

For supplying goods or services, before any activity, all companies need investment and financing resources, so that they can buy their needed assets and start to invest. A proper financial-strategy strengthens the company's ability in achieving the strategic objectives of the company. Thus, the company's ability in identifying the sources within or outside the organization is considered as the main factor in the growth and progress of the company. These financial resources and their uses are of the factors affecting the performance of companies. In this regard, the present research deals with studying the effect of different financing methods on stock returns in the companies and choosing the best method from among the existing methods.

METHODOLOGY

The study is applied regarding the objective and correlational in terms of the nature of the research.

Hypotheses

The first hypothesis: financing through increasing the capital by equity has a significant effect on stock returns.

The second hypothesis: financing through retained earnings has a significant effect on stock returns.

The third hypothesis: financing through short-term loans has a significant effect on stock returns.

The fourth hypothesis: financing through long-term loan has a significant effect on stock returns.

Study population

Time span of the present study is a seven-year period from 2008 to 2014, and the place of the research is Tehran Stock Exchange. After applying these restrictions, 150 companies having all inclusion criteria were selected as the sample.

In this model:

RET is stock return, Eq. Finance is financing through equity, R.E. Finance is financing through retained earnings, Long debt. Finance is long-term debt financing, Short debt. Finance is short-term debt financing, size is size of the company, Leve is financial leverage, ROA is return on assets, and Ɛ is component error.

Descriptive statistics

The mean value for the dependent variable that is return on equity is 0.25. Mean stock return of the samples companies is 0.25, and the median of the mentioned variable is 0.20 showing that half of the data is less and the other half is more than this amount. The proximity of the median and mean shows the normality of the data.

Test of the normality of variables

Given the definitive role of diagnostic tests in the analysis of the results, conducting some tests to confirm the assumption of normality is very important. A common test used in this regard is Jarque and Bera (JB). In JB test, using kurtosis and skewness of the distribution of residuals, we investigate normality or non-normality of the distribution of the error terms.

In this study, JB statistic value in each of the regressions was less than 5.99. Therefore, the distribution of error terms in each of them follows normal distribution.

As is seen in Table (2.4), statistic of the normality of variables and their significance level has shown the confirmation of H0 hypothesis and rejection of H1 hypothesis. In other words, the variables used in the regression model of the study do not have a non-normal distribution.

The results of reliability of the variables

The results of reliability show that the level of error of all the variables is less than 5% and research variables are reliable. Therefore, the null hypothesis denoting the unit root of the variables is rejected.

The results show that all the variables are reliable at 5% level, and using them in estimating research models does not lead to false results.

The result of testing research model:

In addition, adjusted coefficient of determination is 0.47 (R^2). This number indicates that approximately 0.47% of the changes of the dependent variable can be attributed to independent and control variables, and the other 0.53% is caused by other factors out of researchers' control. As the value of this index is greater, the dispersion of the points around the regression line is greater.

First hypothesis:

According to the results t statistics related to financing through increasing capital by equity (EQ.FINANCE) and its significance level (p.v) are, respectively, 3.60 and 0.00 and its coefficient is 0.35. As the level of error considered for this study has been 0.05, financing through increasing capital by equity has a significant effect on stock returns, and the first hypothesis is confirmed at 95% confidence level. Variable coefficient (FCF) is positive, so there is a significant positive relationship between financing through increasing capital by equity and stock returns.

The second hypothesis:

According to the results t statistics related to financing through retained earnings (RE.FINANCE) and its significance level (p.v) are, respectively, 1.49 and 0.13 and its coefficient is 0.21. As the level of error considered for this study has been 0.05, financing through retained earnings has no significant effect on stock returns, and the second hypothesis cannot be confirmed at 95% confidence level.

The third hypothesis:

According to the results t statistics related to financing through short-term loans (SHORT.DEBT.FINANCE) and its significance level (p.v) are, respectively, -2.04 and 0.04, and its coefficient is -0.05. As the level of error considered for this study has been 0.05, financing through short-term loans has a significant effect on stock returns, and the third hypothesis is confirmed at 95% confidence level. Variable coefficient (SHORT.DEBT.FINANCE) is negative, so there is a significant negative relationship between short-term financing through equity and stock returns.

The fourth hypothesis:

According to the results t statistics related to financing through long-term loans (LONG.DEBT.FINANCE) and its significance level (p.v) are, respectively, 3.69 and 0.00 and its coefficient is 3.69. As the level of error considered for this study has been 0.05, financing through long-term loans has a significant effect on stock returns, and the fourth hypothesis is confirmed at 95% confidence level. Thus, there is a significant positive relationship between financing through long-term loans and stock returns.

The results of testing hypotheses

The results of testing the first hypothesis

Research findings based on panel data showed that, financing through increasing capital by equity has a positive and significant effect on stock returns, so the first hypothesis was confirmed at significance level of 95%.

The results of testing the second hypothesis

Research findings based on panel data showed that financing through retained earnings has no significant effects on stock returns, so the second hypothesis was not confirmed.

The results of testing the third hypothesis

Research findings based on panel data showed that financing short-term loans has a significant negative effect on stock returns, so the third hypothesis was confirmed at 95% level of confidence.

The results of testing the fourth hypothesis

Research findings based on panel data showed that financing through long-term loans has a significant positive effect on stock returns, so the fourth hypothesis was confirmed at 95% level of confidence.

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