Extended Abstract

An Investigation of the relationship between Net Operating Assets and Stock Returns of Listed Companies in Tehran Stock Exchange

Dr. M. Arabsalehi  Dr. A. Saeedi  S. A. A. Abedi Avanji
Isfahan University  ISfahan University  Isfahan University

Introduction

Stock Exchange has an important role in the development of each country through directing the investment of personal saving to productive activities. The investors' main goal is getting a reasonable return of their investments. Thus, the investigation into the behavior of stock returns is an important subject in which area researchers conducted a valuable amount of research. According to Capital Asset Pricing Model (CAPM), systematic risk (beta coefficient) is the only factor that can explain stock returns. However, experimental evidences are documented that show beta as the index of systematic risk cannot explain all aspects of stock return. Experimental evidence shows that in addition to beta some other factors such as firm's size and book value to Market value ratio of equity play a vital role in explaining the stock return. Consequently, financial theory has started a new era and a new theory is born called “Behavioral Finance Theory”. Behavioral finance theory tries to explain those aspects of stock return behavior which are not explainable by CAPM, by applying psychology and studying the investor's behavior. In this research, based on behavioral finance theory “the relationship between stock return and Net Operating Assets” as an influential factor in explaining of stock return behavior, is investigated.
Research Hypothesis

To achieve the objectives of this research we developed the research hypothesis as: there is a relationship between Net Operating Assets and stock return among companies listed in Tehran Stock Exchange.

In this study our statistical hypotheses are:

H0: there is not any significant relationship between Net Operating Assets and stock return in Tehran Stock Exchange listed companies.

H1: there is a significant relationship between Net Operating Assets and stock return in Tehran Stock Exchange listed companies.

Methods

This research is a kind of applied-correlative type. The target population consists of Tehran Stock Exchange listed companies; 93 companies are selected by applying systematic sampling to select the sample population.

In this study the multiple regression model to investigate the behavior of stock return is as follows:

\[
R_{it} = \gamma_1 \ln(\text{Size}) + \gamma_2 \ln(B/M) + \gamma_3 \text{Ret}(-1) + \gamma_4 \text{Ret}(-12) + \gamma_5 \text{Ret}(-36) + \gamma_6 \text{Accruals} + \gamma_7 \text{NOA}
\]

Stock returns (R), is the output variable and Net Operating Asset (NOA), is an independent variable. Accruals are entered in this model as control variable.

This model also contains Size and B/M as asset pricing control variables. Size is the market value of common equity and the book-to-market ratio (B/M), is the book value of common equity divided by the market value of common equity, both measured at fiscal year end. In addition to these two variables, we also include a number of past return proxies to control for the 1 month-reversal, 12-month momentum, and 3-year reversal effect.

The above multiple regressions run by applying statistical software "STATA" and Chow test indicated that we must use Panel data. Then to
choose the Random Effect Model (REM) or Fixed Effect Model (FEM) Hausman test was used. The test indicates that FEM must be used.

**Results**

Findings show that there is a negative meaningful linear relationship between NOA and stock return in Tehran Stock Exchange listed companies.

**Discussion and Conclusion**

According to literature and the negative relationship between NOA and stock return it can be concluded that investors in Tehran Stock Exchange value firms based on their earnings performance rather than performing a complete analysis of financial variables. In other words, investors with limited attention tend to overvalue firms whose balance sheets are bloated as shown with NOA.

**Keywords:** Behavioral Finance, Net Operating Assets, Stock return, Firm's size.
Surf and download all data from SID.ir: www.SID.ir

Translate via STRS.ir: www.STRS.ir

Follow our scientific posts via our Blog: www.sid.ir/blog

Use our educational service (Courses, Workshops, Videos and etc.) via Workshop: www.sid.ir/workshop