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Studying the Relationship between Fluctuation of the Stock Market and Specifications of Predicting Management Profits

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ABSTRACT

When investors decide to buy or sell shares in the stock market of exchanges in Tehran, they pay attention to the reported profit of each share and the predicted profit of each share. And they may consider each of them as a criterion in future's profitability. Fluctuations of the capital market (existence of an uncertainty in the market) have intensified manager's cautious behaviors in exposing the predictions of profit of each share and these fluctuations will probably reduce their tendency to disclose this information. The main objective of the present research is to study the relationships between "fluctuations in the exchange market of Tehran" and "the behavior of the managers of the accepted companies in this market in predicting the profit of each share". Statistical sample of this research includes 178 companies out of the accepted companies in Tehran's stock exchange. Their data were collected and analyzed during the years 1389 to 1391. The findings of the research suggest that the managers' tendencies for publishing the predictions of the profit decrease as the fluctuations of the stock market increase. This finding is in compliance with theoretical foundations of the research and shows that the uncertainty which exists in the capital market affects the behaviors of the managers in presenting information to this market. Also the results showed that publishing the good news of profit predictions or bad news of it by the managers of the accepted companies is not affected by the fluctuations of the market. Finally, the results indicate that active participants of the capital market show a more intense reaction to the bad news of the profit prediction in the periods that the fluctuations of the capital market are in the highest levels than other periods.

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INTRODUCTION

One of the objectives of the accounting and preparation of financial statements is to present useful information for deciding. Investors require relevant and reliable information in order to make accurate decisions. Usefulness in prediction is one of the specifications of the relevance of the information and it's used for codifying the theory and also for choosing accounting methods. In the statement number 4 of the Board of Accounting Principles, one of the given public objectives of financial statements is providing information in order to help the prediction of future profit of the trade unit [1].

Profit is one of the important and main items of financial statements that attracts the users of financial statements' attention to itself. Investors, creditors, managers, employees, analysts, government, and other users of financial statements use profit as a basis for investment decisions, money lending, profit payout policy, companies' evaluation, taxes' calculations and other decisions which are relevant to the company. Predicting this number by managers of the economical units is a great help for investors to make decisions about buying and selling of shares. On the other hand, the uncertainty that exist in the market and lack of information causes the managers to be dubious about the future and have less tendency to predict the profit and disclose it [2]. Sensitivity of the capital's market for information disclosed by the manager on one hand, and managers' tendency to keep their position as a person who is aware of current and future conditions of the company on the other, makes the managers of stock companies to be more cautious of disclosing information that is not in the context of financial statements. It is argued that fluctuations of capital market (an existing uncertainty in the market) intensify managers' cautious behavior in disclosing predictions of the profit of each share and they probably reduce the managers' tendency for disclosing this information. Each country's growth and development

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requires using resources in an optimal form and leading them to an accurate direction. In each society, institutions can take a step towards achieving this goal and play an important role in this way. Capital markets and institutions that are relevant to them is one of the most effective factors in this process. Tehran's stock exchange is considered as the most important and basic centers for capital interchange. Undoubtedly its true and accurate activity can have an important role in optimum designation of resources in macroeconomics and prepare the country for economical growth and development. One thing is certain, the effectiveness of these institutions depends on their personnel's making accurate decisions. Since actual and potential investors are most important active group in the market, so their making accurate decisions can play a significant role in leading capitals and their optimum designations [3].

When investors decide to buy and sell share in Tehran's stock exchange, they pay attention to the each reported share's profit and to predicted profit of each share and they may consider each of them as a criterion of futures profitability. Although the stock organization has decreed some requirements concerning dissemination of profit prediction of each share, but providing these kinds of additional information and publishing them by managers is considered as disclosing authority or information. Paying more attention to these disclosures by managers of economical units can somehow cause using resources for development and production. Also the existence of a research gap in this area and the need to clarify the relationship of this variable with other variables of the market, indicate that such study in this field is necessary [4].

From a long time ago, many studies concerning prediction of profit were done in Iran and in the world. These researches have studied prediction of profit from various aspects. "George Foster" studied macro and individual behaviors of the market about announcement of the estimated profit of each share of companies in New York Stock [3].

"James Patel" tested the evaluation of informational content of profit prediction with the effect of announcing prediction of the profit on share price [3]. "Gerard" and "Verson" showed that the fluctuation market's uncertainty causes some changes in the reaction of share price to unexpected profit of the company [5].

Therefore by considering above contents, it can be said that the objective of this present research is to study the relationship between the phenomena of uncertainty in Tehran's stock exchange and behavior of the accepted company's managers in this market and in prediction of profit of each share and the assumptions of this research are:

1. There is a significant connection between fluctuations in stock market and managers' tendency to disclose prediction of profit of each share.
2. There is a significant connection with increase of fluctuations in the stock market between managers' tendency to disclose bad news compared to their tendency to disclose goods news concerning the connection with prediction of profit of each share.
3. There is a significant connection with increase of fluctuations in the stock market between reaction of the stock market to bad news about prediction of profit of each share and management.

Research Method and the Method of Collecting Data:

the research method is descriptive and a type of correlation. The present research is practical in terms of objective and in the research it is tried to study and analyze the effect of special conditions of capital market on reporting behaviors of the managers of the accepted companies in the stock market. The research method is descriptive-mensural in terms of collecting data and the required data for testing its assumption is collected from financial statements of the companies of the statistical sample and information of Tehran's exchange market.

In this research, we have used the library method in order to collect the required data. In this method, firstly some preliminary studies and codification of literature chapter and theoretical framework of research are done by using library resources such as books, magazines, theses, articles and internet. Then, by using databases of Tehran's organization of stock exchange, the website of this organization and software of stocks such as "Rah Avard e Novin" (Modern Present), the required data for testing the assumptions are collected.

Society and Statistical Sample:

The target population that was being studied, included all of the accepted companies in Tehran's stock exchange which were active from the year 1389 to 1391. In order to moderate the above target population and extracting sample, the following items and conditions about choosing the companies are taken into consideration:

1. The company shall not be one of investment, insurances and banks' companies.
2. The end of financial year of the company shall be the end of each March and during the period that was mentioned earlier, no changes shall be made to the financial year.
3. The company shall not have a stop in trading symbol for more than four month in each year.
4. The required data of the company for the years 1389 to 1391 shall be available.

Thus the sampling method is systematic and according to above considerations, a company that doesn't have these items will be omitted.

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Method of Data Analysis:

After collecting information, the data will be analyzed by the software SPSS version 18 and through regression method of analysis.

Findings:

Table number one shows descriptive information concerning the variables of the research.

Table 1: Descriptive analysis of the used analysis in the model of test assumptions.

	number	Minimum	Maximum	Average	Standard deviation
FREQ	534	.6931	2.1972	1.242340	.4278424
GoodNew	534	0	1	.52	.500
BadNew	534	0	1	.48	.500
MKTVOL	534	5.6534	7.9092	6.842587	.7937647
Beta	534	-6.8700	7.2700	.239906	1.2002929
DISTANC	534	.0000	5.7777	5.143498	1.5057911
POINT	534	-2.8182	.0000	-.144755	.2906419
Size	534	10.4584	18.3212	13.214344	1.3571244
Price	534	9.0597	17.5121	12.525702	1.4714641
RET	534	-.7846	12.1175	.263283	.8091321
MTB	534	-3.1214	17.4031	1.755242	4.5257709
ROA	534	-.7179	.6274	.107485	.1305757
Valid N (listwise)	534				

Descriptive statistics of frequency variables of predication of profit shows that the frequency of profit prediction of companies of the statistical sample during the period of research has been low, on average. Because this variable's average is closer to its minimum amount and also, the findings show that intensity of the mentioned variable's fluctuations during the research period has been normal. Because the standard derivation of this variable is lower than its average. This finding indicates the normality of frequency variables of predication as a variable that is dependent to the research. The results of the descriptive analysis, for the variables of good news and bad news, show that during the time of research, the frequency of good news was higher compared to bad news. This finding shows that probably the managers of the companies of the statistical sample have been relatively optimistic in predicting the profit. The results of the statistical analysis of fluctuations in the index of stock market show that distribution of this variable is, to a large extent, close to a normal distribution. Because the standard derivation of it is much lower than its average and the calculated average is the number that has a relatively equal distance from minimum and maximum.

Table 2: The results of analysis of regression with a stepwise method for studying the first assumption.

The linearity tests		Significant level (P-value)	T-statistics	Standardized β	Variable
Variance inflation factor	Tolerance				
1.037	0.964	0.016	-2.418	-0.074	MKTVOL

$FREQ_{it} = \beta_0 + \beta_1 MKTVOL_t + \beta_2 RET_{it} + \beta_3 MTB_{it} + \beta_4 Beta_{it} + \beta_5 Price_{it} + \beta_6 ROA_{it} + \beta_7 Size_{it} + \beta_8 POINT_{it} + \beta_9 DISTANCE_{it} + \epsilon$			
Significance level	F-statistic	Watson camera statistic	Moderated R^2
0.000	25.567	1.535	0.225

Descriptive analysis of variable of stock return, as one of the research's dependent variables shows that in average, the companies of the statistical sample have had positive return for stockholders and active investors during the time of the research. Because the calculated average for this variable is positive. This finding through the calculated results will also be confirmed for control variables which indicated the profitability of the companies of the statistical sample during the time of research.

Before analyzing the assumptions of the research, presuppositions of using regression analysis including the normality of the dependent variables, similarity of variances, lack of autocorrelation of residuals and lack of linearity between the independent variables of regression model have been studied and the results show that all of these presuppositions are adhered.

In order to test the first assumption, a stepwise multiple-variable regression has been used; its results are presented in table number 2 and table number 3.

Table 3: The results of analysis of regression with a stepwise method for studying the first assumption.

ROA	0.164	4.077	0.000	0.562	1.788
Price	-0.231	-3.3	0.001	0.586	1.68
Beta	0.068	2.217	0.027	0.958	1.044
Size	0.127	1.996	0.046	0.727	1.414

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After fitting the models, it was clear that above variable [5] is significant and valid in terms of statistics and it has been kept in regression. Other variables were omitted from regression duo to meaninglessness and invalidation. According to the results, the calculated determination coefficient is 0.225 and it indicates that this model has been able to clarify 22.5 percent of the changes of the dependent variable through the changes of independent variables. Watson camera statistics is a marker for detecting absence of autocorrelation among the residuals of the regression model. Desirable level of Watson camera statistic is between 5.1 and 5.2. As the results show, absence of autocorrelation among residuals is still considered as one of the preliminary assumptions of regression, concerning the fitting model.

One of the basic analyses about regression is the significant general detection of model. This analysis is essential because, it shows the presence or absence of significant connections between independent variables and variables that are dependent to the regression model. The considered criteria for decision-making on this issue is the statistic F. The significant level of the statistic F for the fitting model is lesser than error level of the test ($\alpha = 0.05$) and hence the H0 hypothesis will be rejected and we can conclude that at least one of the β coefficients is significant.

Table 3 shows the results of the statistical analysis for coefficients of independent variables in regression models. This results show the type, intensity and significance of the connection of each of these independent variables that are entered to the regression model with the dependent variable. According to the results of the linearity tests which are presented in the last two rows of the above table; there is not an intense linearity between independent variables of the fitting model. It is because this test's statistics are close to 1. Absence of linearity between independent variables is another preliminary hypothesis of regression and its establishment for the above fitting model will be confirmed.

According to the results, the calculated coefficient for the variable MKTVOL which shows the connection between the fluctuation of the capital market with frequency of publishing prediction of profit of each share, is -0.074 and with a significant level 0.016. This finding indicates that there is a reverse and significant connection between fluctuations in the stock market with frequency of publishing prediction of profit of each share and it shows that as the fluctuation in the stock market increases, the managers' tendency to publish the prediction of share in various times decreases.

The obtained results about coefficients of control variables show that there is a direct and significant connection between variables of returns of assets, systematic risk and the size of company with the frequency of prediction. These findings indicate that probably, companies with more profitability, moderate the predicted profit of actions more and they publish the moderated predictions. And also the direct connection between systematic risk of the share with the frequency of predictions show that the companies that moderate their profit prediction more; have a higher interchangeability in the return of their share. This finding shows that probably, presenting an exact prediction of the profit of companies with a large size, has been problematic for the managers' of these companies and inevitably they make and publish some moderations in the previous predicted profit during the financial period. Also the results show that there is a reverse connection between the value of the company's market with the frequency of the prediction. This finding indicates that the managers of the more valuable companies of the market have fewer tendencies to moderate and publish the prediction of profit in several times.

In total, the results of the statistical analysis indicate a reverse and significant connection between fluctuation of the index of the stock market and frequency of publishing the prediction of the profit. This finding is in compliance with the theoretical foundations of the research and with the mentioned claim in the first hypothesis and shows that the increase of the fluctuations in the stock market reduces the managers of the accepted companies' tendencies to publish the prediction of the profit in this market. Accordingly, the first hypothesis of the research will be accepted at the 95 percent confidence level.

In order to test the second assumption, two separate models are fitted. In model [1], absence or presence of good news is a dependent variable and a function of stock market's fluctuations and control variables. And in model [2], the dependent variable is the absence or presence of the bad news. Since the dependent variables of the test's models are virtual variables, with digits zero and one and they are reflective of the absence or presence of good or bad news of prediction of profit of each share; for fitting the models, logistic regression has been used. The used method for fitting the regression method of this assumption is stepwise progressive method. In table four, the results of statistical analysis for summary of statistical analysis show this regression model.

Table 4: Results of statistical analysis for summary of regression models of testing the second assumption.

Model 1: Good news			
Percentage of likelihood of the model	Coefficient of determination "Neglecrack (R^2)	"chi-square" statistic	Significant level of "chi-square"
76.5	0.131	24.802	0.000
Model 2: Bad news			
Percentage of likelihood of the model	Coefficient of determination "Neglecrack (R^2)	"chi-square" statistic	Significant level of "chi-square"
76.5	0.131	24.802	0.000

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In the above table, the results obtained from statistical analysis for regression models of testing the second assumption are presented. Tests (the one that their results are presented in the above table) are for detecting desirability and acceptability of the fitted regression model.

The results of the regression test for a summary of the fitted models are similar to one another. That is because the explanatory variables (independent) are the same in both models. Likelihood of the models shows that 76.5 percent of observations that are relevant to dependent variables of the second hypothesis are accurately classified. The obtained determination coefficient for models is 0.131 which shows that the fitted models have been able to clarify 13.1 percent of the changes of the good news and the bad news of profit prediction through the changes of the dependent variables.

Chi-square statistic is a criterion for clarification of the overall significance of the coefficients of the dependent variable in the fitted model and estimation of the connections between variables of the research. This statistic shows the desirability of the logistic regression and linearity of the connections between variables. The presented results in table 4 show that the level of significance of the chi-square statistic, for each of two models, is lower than the level of test error ($\alpha = 0.05$). This finding shows that the fitted models are significant, in terms of statistics, and in total, the connection between variables is linearity.

Table 5 shows the results of the statistical analysis for the coefficients of the dependent variables of the regression model of testing the second assumption. The estimation of these coefficients and the level of significance of each of them have been done through Wald statistic. Since the stepwise method has been used for the fitting of the model; only valid and significant variables in terms of statistics are kept in the regression model and their coefficients have been reported.

Table 5: Results of statistical analysis for coefficients of independent variables of regression model of testing the second assumption.

$NEWS_{it} = \beta_0 + \beta_1 MKTVOL_t + \beta_2 RET_{it} + \beta_3 MTB_{it} + \beta_4 Beta_{it} + \beta_5 Price_i + \beta_6 ROA_{it} + \beta_7 Size_{it} + \beta_8 POINT_{it} + \beta_9 DISTANCE_{it} + \epsilon$			
Model 1: Good news			
Significant level of Wald statistic	Wald statistic	The size of coefficient	Variable
0.004	8.422	0.136	Price
0.015	5.925	-1.302	ROA
Model2: Bad news			
Significant level of Wald statistic	Wald statistic	The size of coefficient	Variable
0.004	8.422	-0.136	Price
0.015	5.925	1.302	ROA

According to the presented results in table 5, the variable of fluctuation in the stock market has been omitted from each fitted model, duo to the invalidity or lack of significance in terms of statistics. And only two variables have been determined as valid and the results that are relevant to them have been reported. This finding shows that there hasn't been a significant connection between good news and bad news of the prediction of the profit of each share with fluctuation of the stock market during the time of research. The obtained results from model [1] concerning control variables show that there is a direct and significant connection between the value of companies' markets and the good news and there is a reverse and significant connection between ratio of the returns of the assets and this variable. This finding indicates that the managers of the companies with higher value tend to publish the good news of prediction of profit of each share more. However, the managers of the companies with higher profitability levels are less likely to publish the good news of profit prediction. This is probably duo to the pessimistic views of the managers of these companies of the future performance of the business unit. The obtained results of model [2] show that there is a reverse connection between the values of companies' markets with bad news and there is a direct and significant connection between their profitability and the bad news of prediction of profit of each share. These findings show that the companies with higher market values publish fewer bad news about prediction of profit of each share in the stock market. And the companies with higher profitability are more likely to publish bad news. The reason behind this is that the high real profit enhances the probability of publishing bad news. It can be understood that it is duo the conservative perspective of the managers in prediction of the profit. Considering the fact that in both fitted models, the variable of the fluctuation of the stock market has been omitted duo to the lack of significance of the regression model; the mentioned claim in the second assumption stating that, with increase of the fluctuation in the stock market, the managers' tendency to disclose bad news decreases compared to their tendency to disclose good news that are relevant to the prediction of the profit of each share and this assumption will be rejected.

Linearity tests		Significance level (P-value)	T-statistic	Standardized β	Variable
Variance inflation factor	tolerance				
1.021	0.98	0.000	-5.01	-0.147	BADNEWS*DMKTVOL
.04	0.962	0.000	0.074	0.118	Beta
1.219	0.82	0.044	2.019	0.065	Point

1.805	0.763	0.000	6.55	0.37	Price
1.542	0.782	0.000	-5.583	-0.304	Size

It has been claimed in the third assumption that with increase of fluctuation in the stock market, the reaction of the stock market to bad news in relation with the prediction of profit of each share of the management increases. The model of this assumption is a regression model in which the return of the stock (as the criterion of the market's reaction) is a function of variables of the bad news and fluctuation in the stock market. For fitting this regression model, the stepwise method has been use. The stepwise method in regression is a method in which the statistical software adds independent variables on after the other and in each levels, it omits the variables that are not statistically valid. In Table 6 the results of the statistical analysis for testing model of the third assumption has been presented.

Table 6: The results of the statistical analysis for testing model of the third assumption.

$RET_{it}=\beta_0+\beta_1 BADNEWS+\beta_2 DMKTVOL_t+\beta_3 BADNEWS*DMKTVOL_t+\beta_4 MTB_{it}+\beta_5 Beta_{it}+\beta_6 Price_{it}+\beta_7 ROA_{it}+\beta_8 Size_{it}+\beta_9 POINT_{it}+\beta_{10} DISTANCE_{it}+\epsilon$			
Significance level F	F-statistic	Watson camera statistic	Moderated R^2
0.000	26.054	2.048	0.105

According to the results, the fitted model has been able to clarify 10.5 percent of the changes in the return of the shares of the companies of the statistical sample through independent variables. Watson camera statistic is a marker for detection of the absences of autocorrelation among the residuals of the regression model. The desired level of the Watson camera statistic is between 1.5 and 2.5. As the results show, the absence of autocorrelation among the residuals is considered as one of the preliminary assumptions of regression concerning both of the first models. The significance level of F statistic is lesser that the level of test error (α = 0.05) and it can be concluded that at least one of the β coefficients is significant in the fitted model. According to the presented results in the above tables, the variable [5] has been determined as valid and significant among the variables of the testing model of the third assumption. The calculated coefficient for the variable BADNEWS*DMKTVOL , which shows the capital market's reaction to the bad news during the time of the most fluctuations of the capita market; is negative and significant. However, the variable BADNEWS which reflects the reaction of the stock market to the bad news in all of the research period; has been statistically omitted from the regression model duo to being invalid and lack of significance. These findings show that firstly, the reaction of the capital market to the publishing of the bad news of prediction of profit of each share is undesirable and secondly, the capital market only reacts to the published bad news in the periods when the fluctuations of the market's index are in the highest level.

In case of control variables, the results show that there is a direct and significant connection between systematic risk, accuracy of prediction of profit of each share and the value of the companies of the statistical sample's market, with the return of the shares of these companies. These findings show that more risk entails more return and presenting these variables has been desirable. These findings show that more risks entails more return and presenting accurate predictions about the profit of each share improves the return of all of the company's stocks. And also the results show that there is a reverse connection between the size of company and stock's return. This finding shows that larger companies have had less return for the investors. In total, the results indicate the stock market's reaction to bad news of the prediction of the profit of each share during the periods of high fluctuation in this market. However, during other periods this reaction is zero. Accordingly, the third assumption can be accepted, which states that with the increase of fluctuation in the stock market, the stock market's reaction to the bad news concerning the prediction of the profit of each share of management enhances. And therefore, the third assumption of the research will be accepted with 95 percent of confidence level.

Discussion and Conclusion:

Previous empirical evidences show that presence of fluctuation in the stock market increases the existing uncertainty in this market and it's probable that the behaviors of the managers of the companies be affected about prediction of profit of each share. These evidences show that the prediction of the profit in circumstances, where uncertainty exists, may have considerable costs. The results of testing the first assumption of the present research showed that there is a significant connection between the fluctuation of the stock market and the manager's tendency to disclose the prediction of the profit of each share. The findings are indicative of a reverse connection between above variables. Accordingly, with the increase / decrease of the fluctuation in the stock market, the frequency of publishing the prediction of the profit of each company has increased / decreased. This finding is in compliance with the theoretical foundations of this research and it is indicative of the changes of the managers' behaviors in presenting information concerning the future performance of the company in periods of time that the results are facing some uncertainties. The obtained results are in compliance with the findings of "Kim" and her colleagues (2010) (6).

The results of testing the second assumption show that the fluctuation in the capital market hasn't had a significant impact on the tendency of the managers to disclose good news and bad news. The theoretical foundation of this assumption is based on this: in the periods of time when the uncertainty is high in the capital market; the managers try to present a better and growing image of the unit which is under their authorization to the market, by publishing good news and avoiding spread of bad news of the prediction of the profit of each share. This causes the ones that their predictions is probably associated with optimism, to draw the future prospect of the company in such way that it would give the required motivation to the investors for injecting capital to the company. Done tests in the present research didn't come to a significant conclusion in this case. These findings are not in compliance with the theoretical foundations of the research and with the results of the research of "Kim" and her colleagues [6]. We can search for the reason of the obtained results and the mentioned incompliance in the attitude and approach of the managers of the fluctuations of the stock market and the uncertainty that is caused by it.

The third assumption of the research unlike the past two hypotheses clarifies the reaction of the active investors of the capital market to the prediction of profit and the impact of fluctuation in this market to the mentioned reaction and it has been claimed in the third assumption that with increase of fluctuation in the stock market, the reaction of the stock market to the bad news concerning prediction of the profit of each share of management enhances. The results of the statistical analysis proved the accuracy of this claim and showed that the active investors of the capital market only had a significant reaction to the bad news in the time of high fluctuation in the market. These findings are in compliance with the theoretical foundations and the results of "Rogers" and "Stocken", "Leuz" and "Schrand", Williams and "Kim" and her colleagues [6,7,8,9].

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