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# The Investigation of the Situation of an Initial General Supply of Stock in the Companies Listed in Tehran Stock Exchange

**[1]Marziyeh Raveh and [2]Dr. Seed Bagher Najafi**

[1] *Department of Management, Qeshm Branch, Islamic Azad University, Qeshm, Iran*
[2]*Assistant Professor of Economy , Department of Management, Qeshm Branch, Islamic Azad University, Qeshm, Iran*

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**ABSTRACT**

The purpose of this study is investigation of the situation of an initial general supply of stock in the companies listed in Tehran stock exchange. The research is all companies since the beginning of the year 2002-2012 is the first to offer its shares on the Tehran Stock Exchange, the sample includes 128 company, the statistical analysis of some indicators of central tendency and dispersion and the correlation between the independent variables and the dependent variable using the software SPSS, is calculated. Variables calculated using Excel software. And using software Eviews7 tests and analysis is necessary. The results show that the initial offering price of shares and long-term decline in stock prices in periods 1, 3, 6, 9 and 12, there was no significant the relationship between the stock prices at the initial offering price was assessed valuation of the stock price there is no significant relationship between price and value. The results indicate the fitted regression equation is meaningless and the relationship between the numbers of shares offered for the first time, there is no value below cost.



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## INTRODUCTION

One of the major issues of economic and financial affairs, and public offering of shares to be converted into public ownership is due to its many benefits, such as increased investment, more competition, business tax breaks, access to financial resources, inexpensive and often welcome the company is located. In exchange for the owner name, the annual number of attempted first general supply of its shares, which are in 400 cases a year, but one of the problems in this area are facing in some cases to 300 cases of irregularities relating to the initial general supply of stock because of its importance, is the subject of many studies, the abnormalities in the initial general supply, the long-term decline in prices, the value is the price and the like. In other words, "long-term returns than the market return is short-term returns above market returns". In developed countries and the exchange of the name, many companies each year for their first venture into public offer of shares which in some cases is 300-400 cases per year; but one of the problems that are faced in this area, anomalies in the initial public offer of shares, including the valuation price, price drop in the long and hot initial public offerings, which because of its importance, this issue is very real. Due to the expansion of privatization, initial public offerings dealing with anomalies in the Tehran Stock Exchange, it is possible to show the importance of the study. In Iran, in connection with the initial public offering of stock, methods of pricing and studies have been carried out but it has been paid on the anomalies, the aim of this study is to be distinguished from the others.

### *Study Theoretical Foundations:*

#### *Pricing:*

Literally price of the measure, assess, measure and benchmark. Market price of the exchange value of goods and services can be expressed in the form of money. Pricing simply means the price for a product or service and is an activity which should be repeated and continuous process. The lack of continuity and stability due to environmental changes in market conditions justify the need to repeat the process.

#### *Factors affecting pricing:*

For pricing just and satisfactory identify factors affecting pricing and adjusted them. Three sets of factors that affect pricing decisions include:

**Corresponding Author:** Seed Bagher Najafi, Assistant Professor of Economy , Department of Management, Qeshm Branch, Islamic Azad University, Qeshm, Iran

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* Organizational factors: those that affect the pricing and deal with resources and goals. Like portfolio pricing and product line
* Client factors: factors that affect the pricing of the client
* Market factors: factors that affect the market price, which includes the following two categories
A) Internal factors: marketing objectives, marketing mix strategy, cost and organizational considerations
B) External factors: the nature of demand and market competition, economy, government and media

*Abnormalities initial general supply of stock:*
*Prices in the long term:*

Businesses when entering the stock market are faced with numerous difficulties and uncertainty all of these factors has led to the initial general supply of the process are considered risky. Academics, the initial general supply of high initial efficiency has long-term adverse. Companies that have an initial general supply generally over a period of three years and are facing a drop in stock prices [7] In one category, the main reasons for this can be divided into three groups:

The first group of decline in prices is due to the assumption know underwritten initial public offering price of the shares at artificially high to keep but as soon as the price support cut off from them, prices to the extent that the actual market value of the shares would decrease [12]. believes that the initial public offering price of the shares will be determined largely by investors optimistic but after a while more information is available to the public, people's expectations, in order to become more real, long-term adjustment and output value is smaller, in other words, the long-term, negative relationship with unrealistic perceptions of investors. However, testing this hypothesis because of the difficulty of measuring notions people is a complex task. Second, long-term performance to justify the assumption of agency costs and, long-term relationship or lack of relationship between performance and ownership in America market has been investigated and have achieved different results with respect to each other; Mikelson and colleagues concluded that long-term performance, after the initial general supply of shares or in the first year, or ten years after the initial general supply, if the property does not have any connection with the investigation Jeain and Kinney, suggests a strong positive relationship between performance and the lack of long-term change in the ownership structure after the initial general supply. The third group long-term disability from errors in measuring the efficiency of the selection criteria or false call.

*Pricing below cost:*

Pricing below cost in some countries the figure is equivalent to 388% [5],The "difference between the general supply price of the shares sold to investors (WAP offers stock method) and the closing price of the last transaction in the first days of supply "[12] or "changes the final price offered by the stock market at the end of the first day of trading stock "(the Sherand and Vershiya, 2004). To put it simply refers to the state in which the company accused of selling the shares issued, the price of its shares are strikingly lower than the market price is determined, so that the first accumulation investors initial general supply, i just bought the stock exchange on which a substantial efficiency gain; therefore, the initial general supply unusually early return of the price valuation described Hot initial public offerings hot stocks, stock buying demand is greater than supply as a result, a number of customers may not buy shares above the initial offering the willingness to buy at a higher price than the market price show and so the stock price to temporarily increase; this rate varies from industry to industry, contains the following features:
• New shares more than usual;
• offer more than usual price is observed;
• The efficiency of hot and cold (the boom) new shares can be a huge difference;
• New standard deviation of stock returns is high

Studies show that the initial general supply market is hot; the valuation price will increase. Riter also examine the hot period, between the years 1981-1980, found that despite the rate of supply during periods of hot, the value of the price to the amount of 48.4%, but the cold period between 1982-1977, 3.16% respectively.

*Initial public offerings:*

The initial public offering of its common term that goes back to the 1990's booming markets, The fact that the first company to offer shares to the public during its activity is (Jankoiyst *et al*., 2000). It is notable that companies that were not newly released for the first time in stock and often have at least 3 years' experience

*The initial general supply:*
1) Director of the Company: Company managers have an important role in the success of the initial general supply

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2) Underwriting: Since the underwritten role of unions such as underwriting the sale of securities, the price of the supply, marketing and advertising, distribution and stock prices are charged, the choice of subscribing to features such as reliability, experience, Marketing and Distribution, the fees required and the importance of research and after-sales service are important.
3) The accounting of financial information on the scholarship application, provided, obtained from the audited financial reports confirming it is the responsibility of the independent accountants.
4) Paralegal: their activities in relation to meetings of shareholders, company documents, contracts and leases, ownership of company assets and solve the problems of enforcement of laws and regulations, is very important.
5) Published financial information, the group elected by other members
6) An advertising company to provide a favorable image of the company and assist the company in the market downturn.
7) Transfer of stock brokers, stock transfer services such as registration of transactions, a report of the activities of the company and inform investors about the meetings of the shareholders is responsible.

*History of Research:*

This log indicates that abnormal returns due to the initial public offering price is cheap, the reason he returns to the reputation of the finance and audit firms.

Ibosten and Jef research in an initial public offering something cheap pricing confirmed. His reason for this phenomenon is attributed to specific periods of market in a particular period exceeds the supply and demand for shares and there is a hot market will be short-term returns. Baron Research (1982) showed new short-term stock returns than the market index. The reason for this phenomenon is the existence of information asymmetry between informed and non-informed investor knows.

These Reiter initial general supply short-term abnormal returns are confirmed. He's monopoly power of the guarantee fund and commitment to sell shares of smaller companies and the reason for this phenomenon is emerging.

Tink study showed abnormal returns in initial public offerings confirmed. His reason for this is to avoid a legal battle against the hypothesis.

Velch observed abnormal returns in initial public offerings by companies to the signal quality newcomers to the exchange ratio, Alen study showed that the initial public offering costs than benefits, the company's new shares to be lower than the actual price of the subscription.

Aggarwal and Agaraval & Rioly, the phenomenon of abnormal returns to the initial general supply momentary interests of their investors, investors are unreasonable because of the new shares offered to the market too optimistic. This phenomenon has caused the stock price to rise temporarily but with the increasing awareness of future investment in long-term stock price dropped to close to the true value.

Reiter in their study in 1526 for an initial public offering of group companies and the number, size and the same industry as the control group, his results show that the 3-year performance of the experimental group than the control group, the term of one year to another and in varied industries. His results showed that when the volume is high performance, long-term supply of new shares is low and vice versa.

Livas study [11] showed that the yield of the 36-month low after the initial general supply. However, if the return on the first day of release times to consider the cumulative 36-month return is positive. His results showed that the new shares with the highest initial return on long-term performance are minimal.

Lofran research results and Reiter [7] showed that the long-term outcome 5 years after publishing companies in new shares offered under the company's control. Chen Qi short-term and long-term performance of initial public offerings on the Taiwan Stock Exchange were reviewed, the results showed that short-term stock market index is higher than the new Yasar. But the long-term performance of new shares is below the market.

The result of research of Chey and Paget showed that China's stock markets whatever the initial yield new stock is above its long-term performance worse.

Derabtz study showed that the majority of the Swiss Stock Exchange initial public offering low priced stock companies. Assumption of risk of future results, signaling and partly cyclical market hypothesis to explain the phenomenon of low-priced new shares confirmed. Long-term performance for a period of 36 months after the initial general supply for the 48-month low after the initial general supply was poor.

Deozek research in the Netherlands showed that the average exchange rate during the period from 2001 to 1997, about 17.6 per cent cheaper, but the performance of the new medium and long-term stock market performance difference is not statistically significant. These results suggest that low-priced initial public offerings on the market in the Netherlands is higher than the market hot, cold market.

*Research hypotheses:*

* There is a significant relationship between the valuation of shares and the price.
* There is a significant relationship between stock size and decline in stock prices in the long term.

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* There is a significant relationship between stock prices and valuations below cost.
* There is a significant relationship between stock prices and a fall in stock prices in the long term.

*Methodology:*

This study, the nature and aims of applied research and the collection and testing hypotheses, methodology is descriptive. The data used in this research will be of secondary evidence (reviewed documents) including official statistics published financial statements of companies, stats on the Tehran Stock Exchange, documents, accounting and performance reporting companies will be prepared. This data includes the name, the number of shares offered and underwritten, the date of purchase and sale of stocks and stock prices, etc. is provided. Statistical methods used Pearson correlation analysis and hypothesis testing.

*Population:*

Who is the target population includes firms that period (2012-2002) for the first time their shares were traded at the Tehran Stock Exchange. Provided that the following conditions must be met:
• Component of investment firms and financial intermediaries are not;
• The 29/12 financial year end

*Sample:*

Using a systematic method used to determine the statistical community, all members of the target population of the study are as samples;

The members of the population and the sample are identical and thus its volume consists of companies listed in Tehran Stock Exchange it has been said that all conditions have been met, consisting of 128 company.

*Methods of data analysis:*

Procedure is data analysis and Pearson's test. After collecting the relevant data, SPSS, in view of the data extracted from the financial statements for the new Iranian companies listed in Tehran Stock Exchange, is used for analysis. The statistical analysis of some indicators of central tendency and dispersion and the correlation between the independent variables and the dependent variable using the software SPSS, is calculated. Variables are calculated using Excel software and the software necessary Eviews7-test is performed and analyzed.

*The results:*

*Normality test data:*

Kolmogorov-Smirnov test (ks) normality of the data was tested according to the data in Table A sig is zero, so the data does not follow a normal distribution.

Outliers were then removed using normal within acceptable limits considered normal. Hypothesis was tested with 118 samples.

**Table 1:** Normality test data.

| | | PUV | one month Period | three-month period | Six-month period | Nine-month period | Twelve-month period | PRICE | issueipo |
|---|---|---|---|---|---|---|---|---|---|
| N | | 146 | 146 | 146 | 146 | 146 | 146 | 146 | 146 |
| Kolmogorov-Smirnov Z | 2.796 | 2.091 | 4.396 | 3.736 | 4.452 | 4.189 | 2.422 | 3.261 | 3.261 |
| Asymp. Sig. (2-tailed) | .000 | .000 | .000 | .000 | .000 | .000 | .000 | .000 | .000 |

*The first hypothesis:*

The assumption regarding the valuation of the price of the shares will be considered as hypothesis is as follows:

There is a relationship between the valuation of shares and the price

The regression equation obtained PUV = 0. 045 + 0.0000023 (issueipo). The calculated value of t-statistic and F respectively 0.148 and 0.022 and the statistical probability equal to P-VALUE = 0.882> 0.05. The null hypothesis is rejected, i.e. the fitted regression equation is meaningless and the relationship between the numbers of shares offered for the first time, there is no value below cost.

$$\begin{cases} H_0 : \rho = 0 \\ H_1 : \rho \neq 0 \end{cases}$$

**Table 2:** regression.

| Model | Non-standardized coefficients | Standardized | T-statistics | Significant |
|---|---|---|---|---|

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| | | | | coefficients | | level |
|---|---|---|---|---|---|---|
| | | B | Standard deviation | Standard beta | | |
| 1 | Latitudes | .045 | .002 | | 27.317 | .000 |
| | issueipo | 2.390E-6 | .000 | .014 | .148 | .882 |

*The second hypothesis:*

There is a relationship between volume of shares and long term decline in stock price in the offered in the initial release.

$$\begin{cases} H_0: \rho = 0 \\ H_1: \rho \neq 0 \end{cases}$$

Independent variable amount of shares in the initial offering (issueipo)

**Table 3:** Number of shares at the initial offering price (price).

| Period | one month Period | three-month period | Six-month period | Nine-month period | Twelve-month period |
|---|---|---|---|---|---|
| The coefficient of determination | 0.29 | 0.099 | 0.036 | 0.005 | 0.000 |
| Adjusted coefficient of determination | 0.28 | 0.091 | 0.028 | 0.003 | 0.008 |
| Watson camera test | 2.209 | 1.984 | 1.889 | 2.028 | 1.742 |
| F test | 48.2 | 12.77 | 4.33 | 0.626 | 0.042 |
| T-test | -6.94 | -3.57 | -2.083 | 1.435 | 0.206 |
| The independent variable in the regression coefficient | -0.43 | -0.073 | 0.05 | -0.69 | 0.211 |
| Latitudes | 10.88 | 4.59 | 8.9 | 129.148 | 41.39 |
| sig | 0.00 | 0.001 | 0.039 | 0.43 | 0.83 |

According to the above table that sig periods 1, 3, 6 is less than 0.05 and reject the null hypothesis and the hypothesis is accepted, ie there is a significant relationship between the volume of shares in the initial release of the long-term decline in stock prices in periods 1, 3, 6, but in the course of 9 and 12 months, the null hypothesis is accepted in other words, in the course of the relationship between volume and stock prices in the long run.

*The third hypothesis:*

The assumption regarding the pricing of shares in the initial offering price valuation will be examined

*The hypothesis is as follows:*

There is a relationship between the price of shares in the initial public offering price and the value.

The calculated value of t-statistic and F respectively, and 0.264 -0.0513 and the statistical probability equal to P -VALUE = 0.609> 0.05 is. The null hypothesis is rejected, i.e. the fitted regression equation is meaningless and the relationship between the numbers of shares offered for the first time, there is no value below cost and according to Table 4, there is any significant correlation between the Pearson.

$$\begin{cases} H_0: \rho = 0 \\ H_1: \rho \neq 0 \end{cases}$$

**Table 4:** Table regression.

| Model | | Non-standardized coefficients | | Standardized coefficients | T-statistics | Significant level |
|---|---|---|---|---|---|---|
| | | B | Standard deviation | Standard beta | | |
| 1 | Latitudes | .046 | .002 | | 26.631 | .000 |
| | PRICE | -0.00000019 | .000 | -.048 | -.513 | .609 |

*The fourth hypothesis:*

The assumption regarding the pricing of shares in the initial offering price drop in the long term will be the prices at different periods of 1.3, 5, 6, 9 and 12 have been calculated and the relationship between prices in each of these courses can be studied with the initial offering price of shares in other words, in this hypothesis, as we hypothesized relationship between the dependent variable and the independent variable separately five test and the results are compared hypothesis is as follows:

There is a relationship between the pricing of shares in the initial release of the long-term decline in the price of shares offered in the initial release.

$$\begin{cases} H_0: \rho = 0 \\ H_1: \rho \neq 0 \end{cases}$$

Independent variable pricing of shares in the initial offer (price)

**Table 5:** shares in the initial offering price (price).

| Period | one month Period | three-month period | Six-month period | Nine-month period | Twelve-month period |
|---|---|---|---|---|---|
| The coefficient of determination | 0.001 | 0.000 | 0.000 | 0.005 | 0.00 |
| Adjusted coefficient of determination | 0.008 | 0.000 | 0.000 | 0.004 | -.009 |
| Watson camera test | 1.894 | 2.052 | 1.698 | 2.010 | 1.745 |
| F test | 0.069 | 0.026 | 0.002 | 0.564 | 0.008 |
| T-test | -0.269 | -0.162 | 0.039 | -0.751 | 0.087 |
| The independent variable in the regression coefficient | -.031 | -0.001 | 0.00 | -.015 | 0.002 |
| Latitudes | -745.63 | 5.50 | -27-42 | 131.234 | 49.010 |
| sig | 0.793 | 0.871 | 0.969 | 0.45 | 0.93 |

According to the above table that sig at all periods of 1, 3, 6, 9 and 12 is greater than 0.05 and the null hypothesis is accepted, ie there is no significant relationship between the pricing of shares in the initial offering and long-term decline in stock prices in periods 1, 3, 6, 9 and 12.

*Conclusion:*

The results indicate that the fitted regression equation is meaningless and the relationship between the numbers of shares offered for the first time, there is no value below cost. Weak positive correlation between the two variables is that this is not significant, the first hypothesis is rejected. Stocks with low price-volume relationship in the long term would be to drop the price in 5 different periods of 1.3, 6, 9 and 12 calculated the relationship between prices and the volume of shares offered in each of these periods were examined, in other words, there is a meaningful relationship between the volume of stocks and stock prices in the long term.

The results of the second hypothesis suggests that there is a significant relationship between the volume of shares in the initial offering and long-term decline in stock prices in periods 1, 3, 6, but in the course of 9 and 12 months, the null hypothesis is accepted in other words, in the course there is a relationship between volume and stock prices in the long run, the second hypothesis is confirmed. The third hypothesis regarding the pricing of shares in the initial offering price was assessed valuation and significant relationship between stock prices and valuations are below cost. The result is that the fitted regression equation is meaningless and the relationship between the numbers of shares offered for the first time, there is no value below cost, the third hypothesis is rejected. Initial offering price of shares in relation to long-term decline in prices is examined the prices at different periods of 1.3, 5, 6, 9 and 12 have been calculated and the relationship between prices in each of these periods, the price of shares in the initial release was studied in other words, in this hypothesis, as we hypothesized relationship between the dependent variable and the independent variable separately five test and the results were compared and there is a significant relationship between stock prices and a fall in stock prices in the long term. The results show that there is a significant relationship between the pricing of the shares in the initial offering and long-term decline in stock prices in periods 1, 3, 6, 9 and 12, so the fourth hypothesis is rejected.

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