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RELATIONSHIP BETWEEN EARNING PER STOCK FORECAST ERROR AND ABNORMAL STOCK RETURN OF NEW CORPORATION ACCEPTED IN TSE

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ABSTRACT

Forecast earnings per stock in investments are of particular importance.,because changes in stock prices and capital market are a direct response .On the other hand, the current business environment due to rapid changes in technology and financial conditions ,Directors of the company's business prospects are not properly assessed and hence the incidence of errors in accounting estimates is inevitable .In this case, new entrants to the exchange companies, Due to lack of trading history and so little historical information ,more important is the information asymmetry between managers and potential investors ,in these companies is high .Investors to decide to buy sell or hold stock ,Information such as forecast earnings per stock is provided by the companies they rely on. Thus, it accurately predicted that the decision is based is important .In this study the relationship between earnings per stock forecast error and abnormal returns of companies newly listed on the Tehran Stock Exchange Period of two years and one year after entering into the stock and in stock, Based on data from 84 companies during the period 3003 to 2008 were reviewed . The Results of research using linear regression multivariate analysis shows that between Earnings per stock forecast error and abnormal returns between company's new entrants ,both the study period ,there is a significant positive relationship and type of industry is influence on this relationship.

Keywords: Earnings per Stock, Forecast Error, Abnormal Stock Return, New Corporation

INTRODUCTION

At the present time due to the expansion of economic activities, the development of the financial markets and the investment boom in the capital markets, especially the stock exchange by natural and legal persons, the main tools to make the right decisions and the expected gain and efficient use of financial resources, and access to the right information is correct and accurate information. The company's stock price fluctuations are influenced by several factors including: signs and symptoms or signs that different information from inside the company and finds reflection in available placed such as investors anticipated announcement of the earning per stock for the fiscal year is coming.

Earnings per stock forecast, stock price changes and direct the capital market's reaction is. From the direction of the current business environment due to the rapid changes in financial circumstances and technology, executives of the company do not correctly evaluate the prospects for trade and hence the incidence of errors in accounting estimates is inevitable. This newcomer to the stock companies, trading history and lack of historical information is more important than the minor, of asymmetry of information and also between managers and potential investors in these companies is high **(Jog and Mc Conomy, 2003)**.

The aim of the present study is to assess the relationship between earning per stock forecast error and abnormal returns in the newcomer company's stocks stock exchange by the end of the year in Tehran twice when entering the stock market and a year after entering the stock market. According to the survey results, estimates earnings per stock rated content of information and the market reaction caused and how to deal with this new information, changes to the shape of the prices. Continue to browse research and background article explaining the assumptions, methodology, research findings and analysis of the data and the final section to conclude and offer you suggestions.

Earning Forecast Error and Abnormal Return

Earning Forecast

When the earning per stock goes beyond expectations, the market will be optimistic and its good news, he considered. When the earning per stock was lower than the forecast before is the low expectations, company credit will be fitted in fulfilling **(Payne, 2008)**. The correct and appropriate for the adoption

of decisions of the stockholders are in need of information. Among the information available, the information relating to the earnings and dividend per stock has been forecast before, measure, which is used in many of those considered important and relevant, and that their decisions on the forklift used they fitted.

Prediction of earning per stock is an important role in the evaluation of companies. Who Investors uses it as a Performance evaluation criterion by which people for the development of their company. In fact, the information related to the prediction of the market's expectations of a dividend provider forms **(Cornell & Landsman, 1989)**; **(Kotari, 2005)**. Many studies have shown, in organizations that have large errors, and poor performance in its earnings forecast before see. It is most likely in the forklift to meet its earnings forecast before being fitted with a face lift is the problem. Most of the annual dividends of joint-stock company with the foresight and prudent before up estimated if not be the realization of the stated amount causes negative thinking mode in not stockholders. Failure to realize significant earnings have been estimated before, to the company's dividend cover of disability lift has been estimated.

The accuracy of the Earning forecast in the initial supply

Some of the research related to the prevention of prenatal benefit, the effect of earning forecast announcement of initial stock offerings has been estimated in the study have been fitted. The reason for this is that the initial supply of stocks in the capital stock of Risky lift in the company's stocks of stock shall be accepted in regard to the first, because the information is so widespread in the stock supply. In order to reduce information asymmetry between investors and managers of the company, potential, lift the stock should be required for evaluation of information to investors, the capital. Samples of this research, the research is predicting the accuracy of **Frith (1998)** in the initial supply of stocks in the stock market put Singapore under study. In this study, the stock exchange of Singapore primary supply 116 during the years of 1992-1977 was analyzed. Based on the evidence obtained, the positive relationship between prognosis of nasal stock assessment managers and earning on its initial supply was significant. **Lonkani & Frith (2005)** in a study of the predictive accuracy of the other to lift stocks in the earning forecast is the primary supply in Iraq and its relationship with the stock

during the year of assessment 1997-1991 points. In Iraq, a major part of the capital of investors of the component makers was established. Due to the fact that it has relatively little lift for evaluation information on the initial supply of stocks, making it the main lift on the market was to be public information. Predictive accuracy of the measurement criteria of nose, wrong (error) were considered before, nasal. The results showed that the nose before optimistic means of earning has been higher than estimated before, real earning may be fitted. Of course, before the earning forecast made by general managers of significant earnings forecast was fitted with the exact time series model is fitted.

Earning Forecast Approach

Two methods of Box - Jenkins out model method of fining and random step, several years after the research of accounting method suitable for researchers before dividends forecast have been diagnosed. These two methods of thinking mode in a two set of numbers may explain behaviors are fitted. A time series is based on questionnaires and observations related to each other, the second approach considers whereas based on stochastic processes and is the founder of independence of observations.

The gift box template, the Jenkins is today, mainly in the large economic and management environment for prevention of abuse, to be estimated. This method in the 1960s by Professor George box and Professor Jenkins in order of time series analysis was developed.

In this mode of operation is that this method for a future value of the time series (g) current and past it on the estimated values of the assumption and of the observations in the distance is disconnected from the time of equal-interval is available. In front of random step pattern using the actual value of the current year information, the value of one year or two years ago, is estimated to be fitted. This method assumes that the current status of the status and future of occurrences will occur that are associated. This expected future earning model is only relying on the latest views of the estimation-services **(Ismaili, 2006)**.

The second method: we stock with the difference real efficiency market efficiency. The use of non-efficiency calculation model of the market for the stock is fitted with habitual limitations encountered. Including regression R2 of R i, t and R m, t model parameters estimation market means (A and B) in Iran is very minimal and the market

model relying on the results of the meet with considerable ambiguity. Hence, instead of the expected returns of the stock market based on the model of the expected return based on actual market returns from the market model is used.

History and Hypothesis Research

More information on projected in the FreeBSD newcomer company's reports of interest to many researchers is. Research on the role of benefit estimation of the Firth of forth for the initial public offerings of shares the company has 116 in Singapore for a year in 1992 to 1999 has done. The results showed statistically significant relationship, that between positive non-profit estimation error and yields there are shares of the ordinary **(Firth, 2001)**. **Omran, 2002** shows in his study that short and long-term performance of initial stock offerings for the release of the samples in the stock market about 53 of Egypt between the years of 1994 to 1998 he was the supply. He understand the stock release of results had positive returns of ordinary non-release of up to a year later, and then returns a non-negative in the period of ordinary time of 3 to 5 years old may be fitted. **Zaluki *et al.***, the initial supply of long-term stock performance in Malaysia during 1990-2000 were reviewed. They concluded that the long-term performance of the initial stock of a year after year and for several years associated with the models is not neatly. As well as long-term performance is different in different industries **(Zaluki *et al.*, 2004)**. Ravi Lonkani and Michael Firth factors affecting the company's profit forecast error newcomer to Thailand's stock exchange were examined. The number 175 company as examples during the years 1991-1996 was selected. The variables they include the size of the company, the life of the company, the profit distribution (SD on average a profit three years ago) in the time horizon of the predictions has been profit . Using multivariate regression was performed their results indicated that between the time horizon, such as the size of the company and have variables that are predicting profit and forecast error there is a positive relationship between income and other variables were not significantly **(Lonkani and Firth, 2005)**. **Liau tan *et al*, 2008,** are also about the connection of lift company profits and predicting the outcomes of public supply unusual post cards with the stock exchange of Singapore primary did research that was negative between the accuracy of estimation of profit and return on equity are the unusual post cards. **Yanthi and Florence, 2009**, realized that corporate

size variables, the period of the forecast, the type of industry and trading company from ranking determinants are profit forecast error and profit forecast error on the performance of the stock in the short term affect early release **(Yanthi and Florens, 2009)**.

Research Hypothesis

1. Between the profit per share prediction error and returns the stock companies in unusual post cards arriving in the capital market, there is a relationship.
2. Between profits per share forecast prior to the error, and returns to stock unusual post cards company after one year of the entry into the capital market, there is a relationship.
3. Industry type will affect on the relationship between, forecast profit per share error and abnormal return on equity.

The Research Method

The aim of the research is applied to the method and the nature of descriptive, correlation and linear regression model for the relationship between these two variables is used. It should be noted is the non-linear relationship between research variables test is also conducted and evaluated according to the value of F was significant level, determine the best fit linear regression of variables can provide.

Data Collection and Sampling

In this study of how libraries and archives data for lookup is used. Financial research tools, including case, along with the notes and the companies' financial reports that can be brought through the new software and the Tehran stock exchange official site collection has been. After the classification and calculation variables in Excel software, eventually data using SPSS software to analyze is located.

1. Information required for the calculation of relevant parameters for research company, during the period of study exist.
2. Participation of research and in the period in Iran's capital market acceptance, and traded shamshan interrupted not trading.
3. During one year (12 months) after the release of a species of primitive, no notice, regarding the increase of the capital stock of the company by and (extra Assembly) is not released, because the real interest rate on stock returns per share and a profit forecast as a result of the effective prevention of error they are.

Finally, with regard to the above criteria, the number of companies targeted for example 84 (systematic) researches has been selected.

The Research Model and Measurement of Variables

The following model is estimated for hypothesis testing, provided all of the variables in the model; to have been calculated on a yearly basis:

$$ABR_{it} = \alpha_0 + \alpha_1 FE_{it} + \alpha_2 \mathrm{SIZe}_{it} + \alpha_3 \mathrm{Fl}_{it} + \alpha_4 \mathrm{ROA}_{it} + \alpha_5 LAR_{\mathrm{it}} + \alpha_6 CFo_{it} + \alpha_7 \mathrm{Li}/\mathrm{EQ}_{it} + \alpha_8 I_{it} + \alpha_9 (\mathrm{DPS}/\mathrm{EPS})_{it} + \varepsilon_{it} \quad (1)$$

Definition of variables:

ABR: the abnormal return of the ordinary shares (dependent variable)
FE: profit per share estimate error (independent variable0
SIZe: the size of the company (control variables0
Fl: financial leverage (control variables)
ROA: return on assets (control variables)
LAR: fixed assets of efficiency (control variables)
CFo: cash operations (control variables)
Li/EQ: the ratio of debt to equity (control variables)
I: cost of interest (control variables)
DPS/EPS: cash profit distribution (control variables)
Estimated error ε:
A 0: the width of the origin regression
A α 1-9: estimation of the regression line slope.

Dependent variable in this experiment can be fitted stock unusual efficiency. To determine the return on equity in the period was unusual in any fiscal year of adjusted market model is used. In this model is assumed as a result of the expected process of market efficiency, return on shares of the company in any time period is considered. So the stock market returns and real returns the difference in volume.

$$ABRit = Rit - Rmt \quad (2)$$

$$Rit = \frac{Pit + Dit -}{Pi0}$$

$$Rmt = \frac{Imt - Im}{Im0}$$

Rit: he annual rate of return of shares i at time t; Rmt: The annual rate of return the market in time t
Pit: the price of shares at the end of time i t; Pio: price of shares i at the beginning of the time t
Dit: payment of dividends by the company i at time t; Imt: total stock index at the end of the time t
Imo: the total stock index at the beginning of the time t; Independent variables:

In this study, the each equity profit forecast error as the independent variable is considered. For the measurement of profit per share forecast prior to the error, the following indicators are used to be fitted:

$$\mathbf{FE} = \frac{\mathbf{At} - \mathbf{Ft}}{\mathbf{Ft}} \times 1$$

At: Real earning at t time; **Ft** : Forecasted earning in t time; Control Variables:

Calculation method research of control variables to summarize in the table is provided below:

Analysis of the Hypothesis of Research

The First Hypothesis Test

For the evaluation of the relationship between the independent variable and the dependent variable, and control variables, the first variable regression model fitted with profit per share forecast prior to the error, and returns the unusual post cards through spss has been fitted then the results of this regression model with multivariate regression model results with the presence of the control variables are compared to each variables.

According to the **Table 2** correlation coefficient corresponds to the General research model is equal to 0/504. This number is at the level of 5% was a significant relationship between error of variable profit per share forecast prior to the error of the control variables and returns show the unusual post cards fitted. Show tables of the hypothesis H0 is rejected at the 5% level of error to be fitted (5% error in the regression model is significant) correlation between these variables and confirm the existence of it. Also, such a determination also calculated the number of adapted 0/121 indicates that a relatively low lift fitting of the above variables and variable yields offered by the unusual post cards of then. The value of using open source-Watson, according to **Table 3** shall be the number of 1/594 shows that the errors of the independent each other, and there is no correlation between their errors and correlation assumptions shall be fitted and shall be rejected for errors, use of regression.

It was significant that the level of regression coefficient of the test made with zero corresponding to the company's financial leverage, size variables, return on assets (ROA), return on fixed assets, operating cash, the ratio of debt to equity ratio interest costs and the distribution of the cash benefit is greater than 5%, therefore, shall assume the regression coefficient with zero (assuming H0) fitted and must confirm that lift from the regression equation**.** . But in the case of variable profit per share forecast prior to the error, assuming the regression coefficient, made with zero (assuming H0) shall be fitted and must not be rejected it from the outside, regression equation. Due to the fact that the amount of status indicators (except for the one about which it is fitted shall be less than 30) relating to variables is less than 15, the probability model is linear between the independent variables and the control does not exist.

The Second Hypothesis Test

For the evaluation of the relationship between the independent variable and the

dependent variable, and control variables, the first variable regression model predicting the presence of profit and yields before failure, unusual post cards through SPSS has been fitted then the results of this regression model with multivariate regression model results with the presence of the control variables are compared to a single one of awe. According to the results of the study, none of the control variables, there was no significant relationships (according to the coefficients of regression test sig made assumption with zero) in the regression equation regression do not and should not be added to.

According to the **Table 4** corresponds to the level of using Fisher's exact test is less than 5% error, the result of the regression model fitted was significant has been confirmed in the case of a fixed amount and coefficient B of each variable in the model, as well as with regard to the overall level was significant (sig) has been determined in decision making. Since in this output, the level of regression coefficient of the test made was statistically related to company size variables, financial leverage, return on assets (ROA), return on fixed assets, operating cash, the ratio of debt to equity ratio interest costs and the distribution of the cash benefit is greater than 5%, therefore, shall assume the regression coefficient with zero (H0) fitted and must confirm that lift from the regression equation

But in the case of variable profit per share forecast prior to the error, assuming the regression coefficient, made with zero (assuming H0) shall be fitted and must not be rejected it from the outside, regression equation. Show time is at most linear gives a linear function of the independent variable is independent of other variables. If this is done in a top model is significantly high correlation between independent variables.

Table 1: Method of Measurement Control Variables

Method of Measurement	Variable
LOG (Stock market price × number of stock)	Firm SIZE
Total debt /Total Assets	Financial leverage(FL)
Profit and loss after tax deductions / Total Assets	Return of Asset(ROA)
Net fixed assets/Total earnings	Long term asset Return(LAR)
Operating Cash Flow / The number of stock	Operating Cash Flow (OCF)
Total debt/ equity	Liability/Equity(LI/EQ)
INTEREST/ The number of stock	INTEREST
DPS / EPS	Cash dividend distribution

Table 2: Correlation between all variables of the model at A time

Model	coefficient correlation	R^2	$\overline{R}^2$	STDE	Dorbin-watson	sig
1	0/504	0/254	0/121	62/423	1/594	0/041

Table 3: Summary of Findings Related to the Multiple Regression Method, the First Hypothesis

Model	coefficients are not standard		Standardized coefficient	t statistics	significance level	status indicator	Collinearitg statistics	
	B	Std. Error					VIF	Tolerance
(constant)	034/19 -	350/65	-	291/0 -	712/0	000/1	-	-
earning forecast error	941/0	367/0	347/0	563/2	014/0	300/2	207/1	829/0
firm size	346/0	730/3	012/0	093/0	926/0	518/2	114/1	898/0
Financial leverage(FL)	384/45-	601/59	141/0-	761/0-	450/0	891/2	218/2	452/0
Return of Asset(ROA)	603/0-	401/1	079/0-	431/0-	669/0	389/3	092/2	478/0
Long term asset Return(LAR)	017/0	012/0	181/0	394/1	170/0	286/4	101/1	909/0
Operating Cash Flow (OCF)	002/0-	015/0	019/0-	122/0-	904/0	064/5	634/1	610/0
.Liability/Equity(LI/EQ)	911/1	375/2	131/0	805/0	425/0	619/7	732/1	577/0
INTEREST	072/0-	064/0	154/0-	116/1-	270/0	326/12	253/1	799/0
DPS / EPS	139/12	994/21	081/0	552/0	583/0	672/21	404/1	712/0

Table 4: Multiple regression summaries of findings related to the second hypothesis

Model	The coefficients are not standard		Standardized coefficient	t statisics	significance level	The status indicator	Collinearitg statistics	
	B	Std. Error					VIF	Tolerance
(constant)	596/5 -	066/48	-	116/0-	908/0	000/1	-	-
earning forecast eror	470/0	120/0	513/0	917/3	000/0	023/2	378/1	725/0
firm size	474/1	581/3	044/0	412/0	682/0	709/2	070/1	935/0
Financial leverage(FL)	217/24	455/37	111/0	641/0	520/0	755/2	211/2	452/0
Return of Asset(ROA)	344/0	637/0	077/0-	539/0-	591/0	340/3	765/1	566/0
Long term asset Return(LAR)	001/0	002/0	042/0	371/0	712/0	852/3	171/1	854/0
Operating Cash Flow (OCF)	002/0-	004/0	057/0-	469/0-	641/0	898/6	381/1	724/0
.Liability/Equity(LI/EQ)	295/2	432/3	130/0	669/0	506/0	236/7	675/2	373/0
INTEREST	017/0-	021/0	097/0-	810/0-	421/0	509/27	319/1	758/0
DPS / EPS	966/7-	271/16	053/0-	490/0-	626/0	009/13	097/1	911/0

RESULTS

In this study the relationship between profit per share forecast error and abnormal returns of new shares of the company arrived at the Tehran Stock Exchange test information to analyze the forklift was hypothesis. . For a normal distribution of data from being kolmogarof-asimrnof method and hypothesis testing for lift of the T with the degree of freedom df = n – 2, and 95% confidence level to determine the correlation between being a significant relationship between variables were used. In this section, while the anatomy results of hypothesis, forklift, General conclusion and recommendations based on research findings, be provided.

What is in the test and the overall conclusion of this hypothesis regarding the relationship between the independent variable was the ordinary shares of the company with the non-return of the year twice in the time of entry into the capital market, and one year after entering and participating in the capital market, the time interval can be fitted up to 1382 1387, the variable as is the profit per share forecast prior to the error of linear and positive relationship with the unusual post cards and returns**.** And the control variables in the regression model are considered not significant-and had no effect on the relationship between the independent and dependent variables do not. Also, the results of the hypothesis test lift related industry, represents the effect of the type of industry, on the relationship between variables. The results obtained in this study with the documentation referred to in the framework of theoretical and research literature is match funding.

A study of the first hypothesis showed that linear relationship and positive and confirmed between the profit per share forecast prior to the error, and returns to stock unusual post cards in market entry, there are capital, in other words, whatever the accuracy of prediction-more profit per share is estimated (less than estimated before, errors), will be less yielding unusual post cards. he results of the first hypothesis test with the findings of the investigation the **Firth (2001), Yanti and Florence (2009), , Clarkson (2002), Lonkany et al (2005)** matches, but with the results of the research there is a conflict, **Mohammad Imran (2004)**. He concluded that it was a non-yielding stocks on the normal release of positive has started to release one year later is, while according to the findings of our review sample in this research, the company shares the unusual newcomer has negative returns in the capital market.

This issue can be caused by a lack of efficient capital market and also related to the specific circumstances in the years 1382 to 1384 on the Tehran stock exchange has been dominant.

A study of the second hypothesis showed that linear relationship and positive and confirmed between the profit per share forecast prior to the error, and returns to stock unusual post cards after one year of the entry and presence in the Iranian capital market exists, the results of the second hypothesis test also resulting from the research findings of the **Firth of forth (2001), yanti and Florence (2009, Clarkson (2002), Lonkany *et al*., 2005) and (Liotan, 2008)** not in conflict.

According to the test and analysis of correlation and regression method that performs the control variables were included: company size, financial leverage, fixed assets, araie, yielding efficiency ratio operating cash, cash profit distribution ratio of interest, costs, the proportion of debt to equity, effective relationships between variables in error-profit forecast per share and return on equity after a year of unusual post cards login.

Suggestions based on research findings

According to the results of the first and the second hypothesis, the capital of investors and shareholders suggested that the concept of predictive error of more profit per share forecast and decision making were fitted in the lift to pay attention to it. Because according to the results, the company, which forecast profit before-error (positive/negative) have a high yielding high (positive/negative) unusual post cards, too, and this will be increased or decreased the stock price . Also, it is suggested, that the shareholders: all capital markets decisions in addition to market conditions and other criteria, they note. As a result, according to the hypothesis, as fitted in the recommended; capital of investment and other decisions, also the type of industry due to its effect on the relationship among the variables in this study noted.

General suggestions from research

1. Provide appropriate information to correct, accurate and fast
2. Emphasis on the Tehran stock exchange, the new company more accurately in profit per share before capital investors because they estimated that, usually with the use of this criterion to determine the price of the shares they are fitted. The lack of accuracy in prediction of profit per share, may lift be able to lead to the acquisition of some unusual

post cards for returns, capital of another group of investors and the unusual post cards for the loss.

3. The proposal to be fitted to the stock conditions of forklift company requirement to preparation of different scenarios based on the profit forecast, in terms of implementation and evaluation, as well as a lack of confidence in the securities market law in azathioprine-hard to predict before which company or a change in your nose, or with delay and carefully fitted fitted before they provide low self-esteem.

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