

Long term multi factor analysis by using accounting information: evidence with Iranian stock data

Abstract

This study examines empirically the factor analysis model of stock returns using Iranian data over the period 1991-2010. Specifically, it examines whether the behavior of stock prices, in relation to eight accounting ratio reflects the behavior of earnings. Iran is a country that defer in it economy as compare to the rest of the world. Iran adopted a Sharia based economy and presently under financial and economical sanctions by the world. Therefore, this study also examines whether stock prices are affected by financial and economical sanctions. The major objective of this study is to provide evidence that would contribute to the effort of explaining the risk factors in a country that differs substantially from the other countries not only with regards to its full Sharia financial system but also as it relates to its economical and financial sanctions. Our findings reveal a significant relationship between book to market ratio, financial leverage and size factors and expected stock returns in the Iranian market. Moreover, consistent with rational pricing we find that BE/ME is a strong indicator of profitability when measured by for all stocks. Finally, consistent with the other studies we find evidence that stock prices reacted negatively to the financial and economical sanctions. This has increased the volatility effects on the stock returns and can be a risk for investors.

Keyword: Sanctioned economy; Accounting ratio; Sharia law; Canonical correlation analysis; Arbitrage pricing theory