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Stock Price Synchronicity with Analyst Coverage and Disclosure of Information of the Listed Companies in Iranian Capital Market[1]

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Research Paper

INTRODUCTION

Examining stock price synchronicity allows researchers to study the impact of a vast volume of financial information (Ebrahimi Kordler & Ghalandari, 2016). Advanced legally-operating institutions make firm-specific information widely available. Whenever stock prices reflect more corporate information, stock price synchronicity decreases. This can be likened to a political establishment in which several political parties are active, thus distrust and lack of transparency, for which government involvement is to blame, diminish. When there is less stock price synchronicity, the value of firm-specific information increases. (Hasan et al, 2014).

Market trends and firm-specific information determine stock price behavior. Market trend, in turn, is impacted, among other things, by an array of internal, external, and political factors dubbed systematic risk. Firm-specific information, which is internal, falls under the unsystematic risk category. The trust of most investors in corporate profitability is largely dependent on firm-specific information. A low level of relationship between corporate and market returns (price synchronicity) would point to the existence of a higher level of firm-specific information (Durnev et al, 2003; Piotroski & Roulstone, 2004). Therefore, it can be said that low stock return synchronicity would indicate that corporate stock prices are less

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dependent on market trends because there is more firm-specific information for market players to rely on. An important but unknown issue is the nature of the information analysts produce. Specifically, access to firm-specific information can impact external financing and investment returns (Kan & Gong, 2017). In supporting this argument, Chan and Hameed (2013) presented similar findings for an emerging market. They showed that the impact of analysts on particular stock results in the convergence of its returns. In other words, they stripped down market information to stock prices. Barth et al (2001) underlined the fact that companies with substantial intangible assets are more likely to experience information asymmetry between management and investors, which in turn increases uncertainty about the intrinsic value of the company. This condition may come at the cost of analysts securing firm-specific information about these companies (Chan et al, 2013). Today the role of capital market analysts in sectors such as securities exchange and mercantile trade is much more prominent than before. Their impact on the stock exchange and steering and determining stock prices have increased, especially after the emergence of financial institutions viewed as authorized by the Securities and Exchange Organization of Iran as well as after the start of fluctuations in the prices of stocks they meticulously analyze. The volume of information disclosed by economic institutions active in the capital market, especially the stock exchange, has increased in comparison with the not-too-distant past and has been effective in steering the prices of stocks and other securities traded on the capital market. Thus, this study will later touch on the role of analysts and information disclosure by economic institutions in guiding stock prices on the exchange.

MATERIALS AND METHODS

This applied research has a quasi-experimental and ex post facto design, so it builds on past information. Because this research describes variables and reviews their relations through a regression model, it is descriptive-correlational in nature. The library method has been used to collect data on the theoretical foundations of the research. The data in question has been collected through a review of technical books, journals, related articles, and available websites. Document mining has been employed to collect information and data needed to test the research hypotheses. The data required for analysis was extracted from audited financial statements and board reports to the annual general meetings. Other data has been collected from the Comprehensive Database of All Listed Companies (Codal), the Central Securities Depository of Iran, the Stock Exchange, the Securities

Brokers Association, and the websites of companies listed on the Tehran Stock Exchange and Iran Fara Bourse.

The statistical population of this study included all active companies listed on the Tehran Stock Exchange and Iran Fara Bourse between early 2012 and early 2018. In March 2018, only 22 of the 30 non-brokerage financial institutions, authorized to manage a portfolio, had portfolio management contracts. Given the requirements of the statistical population of this research, the number of companies whose stocks were handled under portfolio management contracts by financial institutions authorized by the Securities and Exchange Organization of Iran and posted changes in Prex in the wake of orders by portfolio managers, 62 companies listed on the Tehran Stock Exchange and Iran Fara Bourse was picked.

To test the research hypotheses and review its main variables, the following formula was used:

$$\text{SYNCH} = \alpha + \beta_1 Log(1 + Disclosure) + \beta_2 Log(1 + Analyst) + \beta_3 Size + \beta_4 Volume + \beta_4 Tobins\ Q + \varepsilon$$

The variables used in the model above are derived from studies by Song & Zheng (2014), An & Zeng (2014), Tian (2014), Grewal et al (2017), and Rasheed et al (2018) based on conditions that prevailed in Iran capital market during the mentioned period.

In the model above:

Disclosure is the financial information for a fiscal year companies have released through the Comprehensive Database of All Listed Companies (Codal).

The size of the company has been calculated through the logarithm of total assets.

Volume is the ratio of the traded shares to the total number of shares.

The analyst is the person who analyzes the financial information of companies.

Q Tobin's is the criterion used to determine the market value of a company.

In interpreting the results of this model the following formula has been used:

$$SYNCH = \log\left(\frac{R^2}{1 - R^2}\right)$$

In this formula, R^2 represents the coefficient of determination. A high SYNCH figure shows that a company follows market trends. But a low SYNCH figure can be interpreted as the company's special movements.

Stock price synchronicity

Stock price synchronicity is a degree of market and industry information reflected in the stock price of a company. Durnev, Morck & Yeung (2003) and Piotroski & Roulstone (2004) define stock price synchronicity as an indicator of the scope market and the industry to explain corporate stock returns. So, stock price synchronicity can be equated with the ratio of systematic risk to unsystematic risk.

CONCLUSION

The applied review of this research showed that the impact of disclosure on the dependent variable was statistically significant, but the impact of analysts on stock return synchronicity was not statistically significant. These findings do not confirm the results of research conducted by Zhu et al (2007), Pan et al (2011), Feng and Li (2011), and Khan, Feng, et al (2016). It can be said that when the dispersion of analyst forecasts is high, the relationship loses its significance.

The findings also suggested there was no significant relationship between stock return synchronicity and analyst coverage. The findings of research conducted by Zhu et al (2007), Pan et al (2011), Feng and Li (2011), and Khan, Feng, et al (2016) do not confirm the results of this study. The second sub-hypothesis indicated that at a confidence level of 95%, the independent variable (disclosure) had a significant positive relationship with the stock return synchronicity of companies listed on the Tehran Stock Exchange. Research indicates that not only public information but also private information impacts stock price synchronicity and creates a U-shaped correlation between synchronicity and voluntary disclosure. An increase in disclosure increases the level of firm-specific and fundamental information reflected in stock prices and thus pushes down stock price synchronicity. This result is in line with the findings of the research conducted by Hasani and Hosseini (2010) Fallahzadeh Abarghouhei et al (2019), Dasgupta et al (2010), Grewal et al (2017) and Rasheed et all (2018). But Kushan et al (2014), Fallahzadeh Abarghouhei et al (2017), and Sletten (2012) concluded there was no relation between stock return synchronicity and information disclosure.

Keyword: Price Synchronicity, Analyst Coverage, Disclosure of Information.
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