# Comparative Study of Alternative Investment Strategies in Terms of Risk and Return 

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#### Abstract

Investment can be seen as a key element in a national economy. The investment enables consumers to postpone current consumption to achieve more in the future. It is expected the revenues from use of these delays would be more than the worth of the money at the present time to motivate people to invest. The opportunities to provide more profits for investments are considered more desirable. In this regard, this study, as a comparative study of alternative investment strategies in terms of risk and return, examines six investment opportunities (gold coins of ancient design, new design gold coins, dollars, stocks, real estate and bank term deposit) and the inflation rate from2005-2011. The sample includes all potential investors willing to invest in each of the six investment opportunities. In this study, independent $t$-test and Pearson correlation were used. The results of the data analysis show that in the long term, the returns on stock, housing and inflation rate are greater than the return on bank term deposits. However, the rate of return on old gold coin, new gold coins, new currency (USD) is lower than the return on bank term deposit. This study concludes that the investment in stock market shares is more profitable than other investment opportunities.


KEY WORDS: Investment strategies, inflation, return on investment opportunities

## INTRODUCTION

Investment has a crucial role in economic growth. One of the main objectives of countries is to achieve economic growth and sustainable development. In the economic literature, capital is regarded as the vessel of any economic life and has been accentuated as the most important determinant of economic growth and development. In fact, in a dynamic economy, companies need new products and consequently productions on a large scale. Mass production also requires the deployment of massive resources of the national capital, tools and production facilities, such as buildings, equipment, machinery, labor and raw materials.

Although the capital can also be provided from external sources to sustain economic growth, it will have to rely on internal resources. Therefore, policies should lead people to invest. In fact, it rarely happens that current revenues of people are equal to those consumer demands. Sometimes people consume too much money and sometimes tend to spend more than their ability. This inconsistency and lack of balance or borrowing make people borrow or save to make profit. Thus, people are trying to effectively manage their wealth in order to protect it from factors such as inflation, taxes and other factors to achieve maximum efficiency (Islami, Bidgoli and Bigdelu, (2004)).

Because of the influence of different political and social conditions on the financial markets, it has always been controversial to find the most desirable investment strategy measured in terms of risk and return. Investment theories focus primarily on the balance of risk and return and investment principles, regardless of the present time spending are defined based on the return commensurate carrying along the risk in the future.

In fact, the importance of risk and return on investment can be seen as important as supply and demand in the economy; Therefore, an important part of the financial literature is devoted to issues related to risk and return. In fact, people have a variety of investment opportunities to choose from. Evaluating the desirability of a framework is based on the amount of investment, risk and return.

## STATEMENT OF PROBLEM

Investment can be seen as a key element of national economies. There is no doubt that increased production will require increased investment. Therefore, the theory is that the economics of underdeveloped countries lack capital and investment views and see the vicious circle of low productivity due to lack of investment (Nakhjavani, A , (2003)). In addition to the macroeconomic consequences of investment, this issue is seen as a desirable phenomenon from the perspective of investors as maintaining the purchasing power of money against inflation make people consider the value of money and rewards arising from the delay. Thus, investment in both the supply and demand of venture capital is seen as the essential prerequisite for progress to attract capital investment process from inefficient towards productive sectors of the economy. Taking into account the investment decisions based on risk and return, capital will be led towards industries with higher

[^0]risk-adjusted returns. This will provide the context of resource allocation. Investment is to postpone the current consumption for possible use in future. It is expected that revenues from the value of the delay is greater than the value of the funds at the present time in order that people can be motivated to invest. The opportunities providing more profits to investors are considered more desirable.

Among the various factors that may cause investors tend to invest in a particular economic sector, profitability of investments is a very important goal because the profit motive underlying investment lies in that section (Eslami Bigdeli, Bigdeloo, (2004)). Investment process begins its resource, that is the savings. Many economists argue that developing countries lack the features of savings. In this case, the increased savings means increased investment and economic growth can be achieved. However, several evidences suggest that there are significant savings and liquidity, However, these savings do not move towards productive investments and people expect to make the desired profit based on their analysis of investment opportunities. Therefore, successful investment opportunities result in more profit making and wealth. It is expected that by studying investment opportunities, people make the best choice. Confusion about investment opportunities among can cause capital market to experience unexpected fluctuations. This study, in a long-term (over five years), from 2005 to 2011 tries to make a comparison of the risks and returns.

## RESEARCH OBJECTIVES

1 - The scientific objective of this research is to assess the impact of risk and return on investment choices. In this regard, the six major investment opportunities (investment in stocks, gold coins of ancient design, new design gold coins, currencies, real estate and bank deposits) are examined.
2 - The practical objective also supports the investment and due to the affected investment opportunities, the political, social and international need to be examined to help investors.

## IMPORTANCE

Investment process in a coherent state involves analyzing the nature of investment opportunities. In this case, activities related to the process of opportunities will be analyzed and important factors that impact investment decisions should be considered. People hope to obtain appropriate profit return considering the investment chances with regard to investment opportunities. Therefore, successful investment opportunities, increase profitability and wealth.

In addition, the movement of investments between various economic sections fluctuate the Iran's capital market occasionally and disables the technical performance of the capital market.

## REVIEW OF LITERATURE

Several studies about the return and risk of investment have been made in several areas. Among which the following may be mentioned:
1 - The research by Messrs. G. Eslami Bigdeli and M. Bigdlu on compared risk and return opportunities in alternative investments. The opportunities examined in this study are as follows: stocks, currencies, gold coins of ancient design, and gain long-term bank deposits. The period begins from July 1398 to June 2005. It was found during the period under review, the stock returns were more profitable than other investment opportunities. Although the risk is higher as compared to other opportunities, it was found that the relative risks and returns of investment opportunities was better than investment in gold and foreign exchange. A portfolio of equity and premium proactive in stocks can also reduce the risk or may reduce greater returns than other investment opportunities to their income.
2 - In another study Jeremy Siegel (1998) collected data on investment returns such as stocks, bonds, treasury bills and gold over the period 1802 to 1997. These opportunities were compared. He calculated the real return (inflation adjusted). During this period, the purchasing power of a dollar increased to 558/9 thousand dollars, stocks to 803 dollar, treasury bills to 275 dollars increased and the profit making of a dollar invested in gold increased to 0.84 . This results in the reduced purchasing power of a dollar in 1802 reaching 0.07 its purchasing power in 1997. Clearly, the growing purchasing power of the funds invested in stocks is not only superior to other assets but it is also notable for its long-term sustainability. This shows that despite much change in the economic, social, political environments over the past two centuries, On average, investment on equity after the reduction of tax, has an annual return benefit about 0.07 for investors (Schilit, W , (1993)).
3 - In another research Rajnish Mahra (2001), compared with average return on equity and return on relatively no risk assets. In this study, average spending efficiency and is calculated in the long term. Furthermore, in this study, apart from the economy of the United States, the economy of countries such as Great Britain, Japan, Germany and France were reviewed achieving greater efficiency and return on equity to risk-free assets in the long term (Mehra, R ,( 2001)).

4- In another study, Jones (1996) also examined the financial asset return data for the period 1926 to 1991. In comparison with the six investment options (Common stocks, small company stocks, long-term corporate bonds, long-term government bonds, medium-term bonds and treasury bills), the stocks of small companies with an average annual return of $17 / 5 \%$ and the average stock, with an average annual return of $12 / 4 \%$ and the highest risk (Jones, C ,(2003)).

## RESEARCH HYPOTHESES

In this study, to evaluate different investment strategies, two main hypotheses have been considered and six sub-hypotheses are as follows:
Main hypotheses 1: a long-term investment returns on bank deposits was higher than the efficiency of alternative investment opportunity during the period under review.
Main hypotheses 2: the return on investment in bank term deposits and alternative investment returns where a reverse relationship is established.
Sub-hypotheses 1: a long-term investment returns on bank deposits is higher than the return on investment in the stock.
Sub-hypotheses 2: a long-term investment returns on bank deposits is higher than old design gold coins .
Sub-hypotheses 3: long-term investment returns on bank deposits is higher than the return on investment in new design gold coins.
Sub-hypotheses 4: a long-term investment returns on bank deposits is higher than the return on investment in the foreign exchange market.
Sub-hypotheses 5: Long-term investment returns on bank deposits is higher than the return on investment in the housing market.
Sub-hypotheses 6: the return on investment in bank term deposits is higher than the inflation rate.

## METHOD

According to the research objectives and the research topic, the study is inferential. To collect information and data from a library of methods, the theoretical literature was collected from books, magazines and numerous articles. To collect required data, the Tehran Stock Exchange's monthly statistical reports, monthly reports, economic indicators and central bank report from Statistics Center were used during the time period April 2005 to February 2011. Variables for measuring the efficiency of the Tehran Stock Exchange is Output price index (general) Tehran Stock Exchange. Since the proceeds of the stock include dividends (dividends, right, stock award) and capital gains, it appears the cost and efficiency index (total) of Tehran Stock Exchange as another indicator is more justifiable and reasonable than others. To measure changes in the gold price, changes in the market price of gold coins and to calculate the change in the US dollar exchange rate, changes in the exchange market of Tehran were used. To calculate the monthly rate of inflation, the price index for consumer goods and services in urban areas of the country was used, which is based on the central bank's monthly economic indicators in the reports provided. To measure housing price changes, housing price per square meter in the city of Tehran based on the reports provided by Statistics Center. To calculate the interest rate of interest rate, long-term bank deposits (deposits of five years) have been used assuming that investors have long-term investment plans.

## THE STUDY

Community is the largest collection of creatures at a given time. The aim of research is a phenomenon in a population. Therefore, this research may aim at understanding the characteristics, functions and variables or the relationships between variables, characters, action and reaction, and examine factors in the community. Units that have at least one common attribute form a statistical sample usually represented by N . In this study, according to the survey on alternative investment strategies concerning the six-time major investment (investment in the stock, currencies, gold coins, old designs, and new designs of gold coins, bank deposits and real estate), desirability in terms of risk and return from 2005 to 2011 was assessed. All potential investors in the desired timeframe willing to invest in six investment opportunities were included.

## RESEARCH MODELS AND METHODS OF MEASUREMENT OF VARIABLES

## Independent variables

1 - Inflation:
The simplest indicator of inflation is that price index rises. Like a fever thermometer that can measure fever. To measure the temperature a society's economic fever, the price indexes are used. The inflation rate is a measure for the evaluation of price volatility. Thus, we can say that the rate of inflation is the percentage of the value of
consumer goods and services. The current price of consumer goods and services valued at constant prices (base year).

$$
\begin{aligned}
\text { Inflation rate }= & \text { (current price of consumer goods and services) } \\
& / \text { (fixed price of consumer goods and services) }
\end{aligned}
$$

In other words, inflation is the percentage change in the price index of consumer goods and services. Namely: Inflation rate $=\left(C P I_{t}-C P I_{0}\right) /\left(C P I_{0}\right)$
Where:
CPIt: Consumer price index of goods and services this year
$\mathrm{CPI}_{0}$ : Consumer price index of goods and services is the base year.
2 - Return on investment of five opportunities (new gold coin, gold coins of ancient design, currencies, real estate and stocks)
In fact, profit is the benefit and return from an investment. In the conventional method, the total return of stock online and the special relationship is calculated. However, in this study, a method for computing yields the following equation being used for a variety of opportunities:

$$
R=\left(I \mathbf{t}-I \mathbf{t}_{-1}\right) /\left(I \mathbf{t}_{-1}\right) \times 100
$$

Where $R$ is the rate of return, $I_{t}$ of this month, $I_{t_{-1}}$ month pre-index has been. The dependent variable

Outcomes of long-term bank deposits are considered as the dependent variable and expressed by the formula for calculating the efficiency of other opportunities. Average yields calculated from for opportunities (Currency, gold coins, old designs, new designs of gold coins, stocks, bank deposits, investment in the housing market) are based on the nominal rate of return of these opportunities, it would be better to be judged by the rate of inflation. We calculate the real returns using the following formula to obtain the modified returns.(RRR represents the actual return rate).

$$
R R R=(\text { return rate }+1) /(\text { inflation rate }+1)-1
$$

To obtain risk investment opportunities, the relationship between the standard deviation is used. For a better comparison, the efficiency opportunities of Central Parameters Return (Geometric mean, arithmetic mean, median, minimum and maximum) are calculated. To measure the value added by each unit (IRR), wealth index (index value) is used. The cumulative effect of index returns over time and typically based on a currency investment measures are calculated as follows:

$$
W I n=W I_{0}\left(1+T R_{1}\right)\left(1+T R_{2}\right) \ldots(1+T R n)
$$

WIn the cumulative value of the index at the end of period $n, \mathrm{WI}_{0}$ initial index value. This amount of TRn is the total return period in the decimal form (Jones, C , (2003)). Compared to the risks and returns of investment opportunities, the sharp ratio is a measure of efficiency. The Sharp measurement (a measure of the variability of returns) is expressed per unit of risk acceptance to see how much excess return is obtained. Investors see much more of this index favorable. It is calculated as follows:

$$
R V A R=(T R \mathrm{P}-R F) /(S D \mathrm{P})
$$

In this equation, we have: TR $P$ average total return of portfolio P during the specified time period, RF average risk-free rate of return and SD p P portfolio returns during the period.

Efficiency or coefficient of variation is also the relative risk (standard deviation) of return (average), which means how many units of return per unit of risk that are obtained. The index is less than optimal from the perspective of investors. To test this hypothesis, a study to compare the differences between the means of the $t$ test is used. Thus the average return on bank deposits separately was compared with average performance with every other opportunity and inflation rates. To see if the test is statistically significant, Pearson correlation test was used to test the two hypotheses. For all statistical analysis and hypothesis EVIEWS testing software is used.

## FINDINGS

Efficiency of investment opportunities compared to investment opportunities indicates that average monthly returns are higher than the average monthly returns of stock indexes. The subsequent items are housing, new gold coin; gold coins of ancient design, bank deposits and currency enjoy the highest average. The real return of investment opportunities that the stocks return are more than other investment opportunities, and then the actual return on housing, new gold coin, gold coins of ancient design, bank deposits and foreign currency. This indicates that the investment opportunity investors neither make profit neither could maintain the value of the funds invested compared to the inflation rate.
Graphs (1) and (6) illustrate the difference between the actual return and the return on those investment opportunities.


Graphs (1) Comparison of benefit return and real benefit return for gold coin (old design)


Graphs (2).Comparison of benefit return and real benefit return for gold coin (new design)


Graphs (3). Comparison of benefit return and real benefit return for foreign currency (US dollar)


Graphs (4).Comparison of benefit return and real benefit return for equity


Graphs (5) .Comparison of benefit return and real benefit return for property purchase


Graphs (6) .Comparison of benefit return and real benefit return for bank account interest

## EVALUATING VALUE-ADDED INVESTMENT OPPORTUNITIES

Comparison of value-added investment opportunities indicates that the maximum value is investing on gold coins of the new scheme, which is 6.292 indicating that 1000 IRR funds invested in new design gold coin has become in 6292 (Table 1).Risks of investment opportunities indicate that operating in the stock index, the highest ranking are among other opportunities. In other words, it witnessed the most fluctuation and then housing, old gold coin designs, new gold coin, currency and bank deposits have the highest risks. Risk-free interest rate is known as no risk interest rate with the standard deviation which is zero.

This annual benefit due to reduced long-term bank deposits in recent years (interest rate reduced in 2008 reduced from $19 \%$ to $17.5 \%$ in $2009,17 \%$ in 2010 and $15 \%$ in 2011). Although the risk of investing in shares of other opportunities is higher, the difference between the risk-return ratios (stock) is less effective with time.

| Table (1). Compare the value of each unit of money invested in each investment opportunity |  |  |  |
| :---: | :---: | :---: | :---: |
| alternative investment | wealth index | Investment in the first period | Funds obtained in the course |
| gold coins of ancient design | 5.636 | 1000 | 5636 |
| new design gold coins | 6.292 | 1000 | 6292 |
| Dollars | 1.214 | 1000 | 1214 |
| Stocks | 2.169 | 1000 | 2169 |
| bank term deposit | 2.961 | 1000 | 2961 |
| real estate | 3.712 | 1000 | 3712 |

Table (2). Compare risk and return measures investment opportunities in the period under review

| alternative investment | Risk | Efficiency ratio | Measure Sharpe |
| :---: | :---: | :---: | :---: |
| gold coins of ancient design | 1.22 | 0.51 | 0.487 |
| new design gold coins | 1.1 | 0.42 | 0.481 |
| Dollars | 0.216 | 0.49 | 0.324 |
| Stocks | 12.9 | 0.32 | 0.495 |
| bank term deposit | 0 | - | 0.5 |
| real estate | 5.6 | 0.499 |  |

## Analysis of central indices and dispersion of data

Analysis of central indices and dispersion of data shows that, gold coins of old design, the new design gold coin , the foreign exchange rate, equity and bank deposits and land \& housing property yield a mean of $15.83,11.404,12.19,1.23,32.95,6.25$ and 15.10 inflation rate , respectively. Positive skewness variable is the long tail of the return distribution. In other words, the distribution of variables is deviated from the normal distribution.

The skewness of variables apart from the three variables new and old coins and housing show a little skewness. The other three variables are a little different from the normal distribution and can be considered a normal distribution of the data. However, these three variables in data distribution are very different from the normal distribution. Elongation or Kurtosis positive data means that the range of the normal distribution is more stretched.

Table (3). Central tendency and dispersion of the dependent and independent variables

| variables | Number of observations | The significance level Jack Braw test | Jack Braw test | Kurtosis | Skewness | Standard deviation | Average |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Inflation rate | 21 | 0.415773 | 1.755231 | 1.809690 | 0.383778 | 5.905631 | 15.83810 |
| benefit return for gold coin (old design) | 21 | 0.000004 | 24.75681 | 6.467389 | 2.016849 | 17.68792 | 11.40476 |
| benefit return for gold coin (new design) | 21 | 0.00000 | 38.52279 | 7.934315 | 2.218028 | 17.97719 | 12.19524 |
| benefit return for foreign currency | 21 | 0.195190 | 3.267562 | 2.500749 | 0.933422 | 1.458122 | 1.230952 |
| benefit return for equity | 21 | 0.317847 | 2.292371 | 3.003801 | 0.809296 | 45.34782 | 32.95714 |
| benefit return for bank account interest | 21 | 0.161213 | 3.650055 | 1.583049 | 0.735483 | 7.467137 | 6.526667 |
| benefit return for property purchase | 21 | 0.000589 | 14.87373 | 5.889707 | 1.470386 | 20.41481 | 15.10476 |


| Table (4). Central parameters of monthly returns of each investment opportunity during |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| alternative investment | Arithmetic average | Geometric mean | Median | Minimum | Maximum |
| gold coins of ancient design | 2.4 | 2.34 | 1.95 | -2.4 | 8 |
| new design gold coins | 2.6 | 2.62 | 2.25 | -2 | 7.8 |
| Dollars | 0.44 | 0.43 | 0.2 | -0.3 | 3.1 |
| Stocks | 40.3 | 33.86 | 14.65 | -6.1 | 133.8 |
| bank term deposit | 1.4 | 1.39 | 1.41 | 1.25 | 1.58 |
| real estate | 11.1 | 10.2 | 8.55 | -14.6 | 50 |
| Inflation | 15.8 | 15.7 | 14.85 | 8.2 | 26.5 |

## Jack Braw test

According to Table (5), the significant level statistics for Jack Braw test, for new and old design coins and housing variables, the profitability is smaller than 0.05 . Therefore, these variables are not normally distributed. Other variables have a normal distribution. Skewness analysis is confirmed.

| Table (5). The results for data based on Jack Braw test |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Variables | Inflation rate | benefit return for gold coin (old design) | benefit return for gold coin (new design) | benefit return for foreign currency | benefit return for equity | benefit return for bank account interest | benefit return for property purchase |
| Jack Braw test | 1.755 | 24.751 | 38.52 | 3.2672 | 2.29231 | 3.65005 | 14.8733 |
| The significance level | 0.415773 | 0.000004 | 0.0000 | 0.195190 | 0.317847 | 0.161213 | 0.000589 |
| Normal | Is normal | Not normal | Not normal | Is normal | Is normal | Is normal | Not normal |

## THE RESULTS

Test results for Main Assumption 1:
This hypothesis states that Long-term return on bank deposits is higher than the returns of other investment opportunities. In this regard, investment opportunities are compared separately with bank deposits. As the results of the statistical tests show, efficiency of the housing stock is greater than the return on bank deposits. Therefore, these two assumption H 1 is rejected and H 0 hypothesis is confirmed. However, the profitability of new and old gold coins and currency (USD America) is lower than bank deposits. For these three assumptions, H0 is rejected and H1 hypothesis is confirmed. Since we have assumed the return on bank deposits of return on all investment opportunities are more, the assumption is not verified.
Test results for Main Assumption 2:
This assumption states that the return on investment is higher than the bank term deposits and investment returns. The other alternative opportunities show reverse relationship. To test this hypothesis, like the Test results for Main Assumption 1, a return on investment opportunity will be studied separately.
Statistical test results show that there is no relationship between bank deposits, housing and stock investment. Then, these two assumption H1 is rejected and H0 hypothesis is confirmed. The efficiency of exchange, gold coins, old and new designs and statistical tests show that the three possible long-term return on investment and return on bank deposits are related. The H1 hypothesis is rejected in all three cases and H0 hypothesis is confirmed. In total the two main hypothesis are not confirmed.
The results of the sub-hypotheses:
H0 is rejected for the secondary hypotheses 2,3 and 4 and H 1 is approved. However, the secondary hypotheses 5 and $6, \mathrm{H} 1$ are rejected and H 0 is approved.

| Table (6). A summary of descriptive statistics obtained from tests |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Variable (benefit return for bank account interest) | benefit return for property purchase | benefit return for equity | benefit return for foreign currency | benefit return for gold coin (new design) | benefit return for gold coin (old design) | Inflation rate |
| The correlation coefficient | 0.25 | -0.2 | 0.800 | 0.7000 | 0.6 | 0.01 |
| The significance level | 0.26 | 0.37 | 0.000 | 0.0002 | 0.0004 | 0.96 |
| Result main hypothesis 1 | Reject the hypothesis | Reject the hypothesis | Confirms the hypothesis | Confirms the hypothesis | Confirms the hypothesis | Reject the hypothesis |
| Result main hypothesis 2 | There is no | There is no | Direct | Direct | Direct | There is no |

## CONCLUSION

During the period under review stock index returns were more than the returns of other investment opportunities although its risk relative to other opportunities was higher. However, it was found that the relative risks and returns of investment opportunities were more desirable. However, as the interest rates on bank deposits are at no risk, investors are exposed to less risk and deposit their funds in the bank with higher returns from investing in new projects and old gold, currency, housing gain and bear no risk while real return (inflation free) of this type of investment is very low and if anyone can bear high risk, it is more profitable a portfolio of equity and premium proactive in the stock market while non-systematic risk or portfolio loss can reduce greater returns than other investment opportunities.

Comparison with similar findings:
Similar results obtained from the study by Bidgeli and Bigdeloo. Despite the differences and opportunities, the findings show that the stock market index is more profitable than other investment opportunities. In studies conducted by Jones, Mehra and Siegel, although the samples and the investment opportunities are different, the same results have been achieved.

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