

## The Relationship between Stock Portfolio Performance, and Financial Ratios in the Tehran Stock Exchange between 2007 to 2013

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### ABSTRACT

The main theme of this study is to examine and analyze the relationship between stock returns and financial ratios of the listed companies on the Stock Exchange in Tehran. Thus each group, the financial ratios that have low internal solidarity, as the independent variable and the rate of return on equity companies, have been considered as the dependent variable. The main idea of the proposed hypothesis is that the proportion of funds raised, and there was a significant relationship between stock returns. In this study, the data needed for the period 2007 to 2013 were reviewed. To verify Hypothesis the research process, the integration of data and time period used. The results of the survey of companies and industries examined separately shows that, among all financial ratios and stock returns, there is a significant relationship. So all the hypotheses presented in the research confirmed.

**KEYWORDS:** financial ratios, Shares Output Price, variable delay.

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### INTRODUCTION

The economic objectives of the country, without the participation of its people, it is impossible. One of the ways of participation in economic development, investment in capital market and the stock exchange is, because of the small size and wander through the post, to the productive and manufacturing activities have been set, the wheels of production and the economy Move it. (Bakhshai & Rai, 2008) One of the important issues that investors make decisions, influence, and return on equity because it is of great importance in increasing shareholder wealth. (Azhdari, 2001) For this reason, researchers and scientists, financial variables that are sought by them, return on equity in future periods to predict. Some market rates, which are the variables to predict stock returns and portfolio shares, are used in the capital markets. In this regard, this study has tried to evaluate the relationship between stock market portfolio (the ratio of price to earnings, price to sales, price to cash flow, price to book value of the stock portfolio, and financial ratio analysis Price to sales ratio), and the portfolio's return.

#### Statement of Problem

One of the goals and ideals of capital markets, allocation of financial resources is correct, it means that the financial resources to realize the best, and the most profitable segments of the market. Due to this, as well as interest and investment required to achieve the appropriate measures to evaluate the efficiency of the stock, and investing in companies that have a better financial future, the use of financial ratios, particularly using market rates, is widely spread in the capital markets of different countries. Familiarity with these ratios and their relationship with the future performance of the company and its stock, is essential for investors (Brigham et al et al., 1999). The purpose of the calculation of financial ratios is that, be it by about a financial statement, judge. Market of a group of financial ratios are the ratios is said that the relationship between the market price (ie the price of a share and the total value of the company), and a driver of enterprise value (such as revenue, profit, etc.), obtained. The ratio is a measure that combines information on the value of the company's total, compared with competing firms provide (Penman, 2005). Extensive research in the field of return on equity has been described as the result of this research is to provide models that have been subject to criticism and support. One of the most popular models, Capital Asset Pricing Model (CAPM) is. Previous studies in the United States, Japan and other developed countries, suggesting that this model does not have the ability to predict stock returns, and should be considered in addition to other variables beta. The results-show that variables such as the ratio of stock price to earnings ratio of book

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value to market value ratio of cash flow to share price and so on, stock returns better than CAPM model predicts (Salimi, 2004 ) Description diversity in the field of predictive power of these variables to predict stock returns is provided. For example, Fama and French (1993) argues that the mere risk that the capital asset pricing model Sharp and Lintner, is intended as a reward for a reasonable risk, and is not fully explained the relationship, between basic and stock returns represent the reward for bearing risk. Using ratios to predict market outcomes become popular stock that could be due to the following reasons (Damodaran, 2006):

Several studies, the ability of financial markets, the company's financial status and future financial predictions-and in the world financial markets have been developed. (Huang et al., 2007) A significant relationship that exists between stock market returns, implies that the use of these variables to predict future performance benefits. The difference between the predictive power of these variables exist, suggest that some of these variables to predict future stock returns relative to other variables, the relative importance of more, enjoy. But research in the field of market analysis, very little has been done, and use many of these ratios, Iran's capital market is still unknown.

### **The importance and value of this research**

The role of financial markets, and private sector capital to absorb liquidity in the form of small and large Savings, and guide them into the sectors. The mission of the capital market, as part of the financial market, the transfer of funds from suppliers (Lenders - saving participants), to the applicants (production company) is. Methods of investment are of great diversity, regardless of the type of investment, both "predictable investment, the recovery of investment income," and "real benefits from the investment 'of the matter most aspects of financial decision making are (Jafari Samimi et al., 2004). In any investment, investors are seeking returns from investment. Investor tries to, the amount of future stock returns of companies to gain information. In addition, one of the most common methods of analysis of financial information, providing financial ratios. Financial ratios, financial reports of companies which are abstract in reality, much of the content of internal company offer. The capital markets of developed countries, the ratio of market investors that are part of financial ratios, are also important (Abzari,2001). But applying the proportion of the capital market, in comparison with developed financial markets in Europe and the United States is lower, and although some of these ratios in the stock market of used, but some of these ratios somewhat unknown left. This research effort, the relationship between stocks returns of the portfolio, and to analyze the market, and thereby paves the way for superior stock selection, open. It is hoped that the results of the study, investors in the capital market of Iran, they can select the best stock company, and thus a more efficient capital market, and the optimal allocation of capital contribution.

### **The hypothesis of the study**

The study consists of seven main hypotheses, and hypotheses is secondary, is as follows:

1. There was a significant relationship of returns on the portfolio shares, the price to earnings ratio of the portfolio equity (P / E).
2. There was a significant relationship the performance of the portfolio of stocks, and the ratio of price to book value of the portfolio equity (P / B).
3. The return of the stock portfolio, and the ratio of price to cash flow, portfolio equity (P / CF), there was a significant relationship.
4. The return of the portfolio between stocks, and price to sales ratio of the stock portfolio (P / S), there was a significant relationship.
  - 4.1. The return of the stock portfolio, and profit on sale of portfolio shares (E / S), are related.
  - 4.2 of return on stock portfolio, and the ratio of book value equity portfolio benefit (B / E), there was a significant relationship.
  - 4.3 of portfolio returns than cash flow, profit shares and stock portfolio (CF / E) there is a significant correlation doors.
5. The stock portfolio yield and price to earnings ratio of the portfolio equity (P / E), and the ratio of profit to sales of equity portfolio (E / S), are related.
6. The return on the portfolio shares, the ratio of price to book value of the portfolio equity (P / B), the ratio of book value equity portfolio benefit (B / E), and the ratio of profit to sell stock portfolio (E / S), are related.

7. The stock portfolio yield, price to cash flow ratio and portfolio equity (P / CF), the ratio of cash flow to benefit the stock portfolio (CF / E), and the ratio of profit on sale of portfolio shares (E / S), are related.

**Findings**

**the First hypothesis**

The return on the portfolio shares, the ratio of price to earnings (P / E) there.

**Table 1: analysis Portfolios stocks that have been formed on the basis of the ratio of price to earnings**

Year Financial	number of shares	$\alpha$	$\beta$	calculated t	The correlation coefficient (r)	The coefficient of determination	The adjusted coefficient of determination	F	The possibility	Consequently
2007	5	0/39	-0/29	-2/05	-0/57	0/33	0/30	13/70	0/00	accepted *
2008	5	0/44	-0/38	-2/94	-0/48	0/23	0/21	8/64	0/00	accepted *
2009	5	0/31	-0/22	-2/38	-0/41	0/17	0/14	5/65	0/02	accepted *
2010	5	0/09	-0/12	-1/27	-0/32	0/11	0/08	3/31	0/07	accepted **
2011	6	0/18	-0/09	-0/97	-0/18	0/03	-0/001	0/94	0/33	rejected
2012	6	0/12	-0/06	-0/88	-0/16	0/03	-0/01	0/77	0/38	rejected
2013	6	0/06	-0/06	-1/09	-0/24	0/06	0/02	1/68	0/204	rejected

As can be seen in Table 1, the hypothesis H0 that the lack of correlation between stock returns of the portfolio, and the ratio of price to earnings in the period declined by 95%, and the H1 hypothesis that a correlation between the returns of the stock portfolio, and the ratio of price to earnings, in the three courses will be accepted. In a period (2010-2009), the hypothesis H0 is rejected with 90 percent confidence, and H1 hypothesis that a correlation between the returns of the stock portfolio, and the ratio of price to earnings in the period will be accepted. The relationship with the probability (p-value) can be deduced, if the amount is less than the error ( $\alpha$ ), the coefficient table is confirmed by the fact that in the period in question, the less likely 5% in a period of less than 10 percent. Given the correlation and regression coefficient ( $\beta$ ) also can be found in the relationship between dependent and independent variables, from where the four correlation, and regression coefficient is negative, the negative correlation between the returns of the stock portfolio, and Price to earnings ratio in the four rounds, will be accepted

**The second hypothesis**

The return on the portfolio shares, the ratio of price to book value (P / B), there.

**Table 2: analysis Portfolios stocks that have been formed on the basis of price to book value.**

Year	number of shares	$\alpha$	$\beta$	calculated t	The correlation coefficient (r)	The coefficient of determination	The adjusted coefficient of determination	F	The possibility	Consequently
2007	5	0/148	0/023	0/242	-0/054	0/003	-0/031	0/109	0/742	rejected
2008	5	0/218	-0/048	-0/753	-0/140	0/019	-0/015	0/567	0/457	rejected
2009	5	0/198	-0/173	-3/57	-0/560	0/313	0/289	12/79	0/001	accepted *
2010	5	-0/006	0/003	0/091	0/017	0/000	-0/035	0/008	0/927	rejected
2011	6	0/074	0/092	1/49	0/271	0/073	0/040	2/228	0/146	rejected
2012	6	0/115	-0/184	-3/36	-0/537	0/288	0/262	11/34	0/002	accepted *
2013	6	0/141	-0/049	-2/981	-0/490	0/241	0/213	8/891	0/005	accepted *

According to Table (2) hypothesis H0, based on the lack of correlation between stock portfolio performance, and price to book value ratios with 95% confidence, the three rejected the hypothesis H1, based on a correlation between the returns of the stock portfolio, and the ratio of price to book value of the three courses will be accepted. Given the correlation and regression coefficients can be found in the relationship between dependent and independent variables, the three periods where the correlation coefficient is negative, the negative correlation between the returns of the stock portfolio, and the ratio of price to book value in The three-course, be accepted.

**The third hypothesis**

The return on the portfolio shares, the ratio of price to cash flow (P / CF), are related.

**Table 3: analysis Portfolios stocks that have been formed on the basis of price to cash flow.**

Year	number of shares	$\alpha$	$\beta$	calculated t	The correlation coefficient (r)	The coefficient of determination	The adjusted coefficient of determination	F	The possibility	Consequently
2007	5	0/252	-0/117	-2/026	-0/357	0/127	0/095	4/108	0/052	accepted **
2008	5	0/324	-0/183	-3/251	-0/523	0/274	0/248	10/575	0/002	accepted *
2009	5	0/262	-0/162	-3/338	-0/533	0/284	0/259	11/143	0/002	accepted *
2010	5	0/051	-0/059	-2/045	-0/360	0/129	0/098	4/183	0/050	accepted *
2011	6	0/179	-0/094	-2/086	-0/366	0/134	0/103	4/355	0/046	accepted *
2012	6	0/138	-0/102	-1/761	-0/427	0/183	0/154	6/285	0/018	accepted *
2013	6	0/030	-0/027	-1/032	-0/191	0/036	0/002	1/066	0/310	rejected

As can be seen, except for the period from 92 to 1391 in all phases assuming the hypothesis H1, based on a correlation between the returns of the stock portfolio, and the ratio of price to cash flow it will be accepted. In all phases of the correlation coefficient is negative, the inverse relationship between stock returns of the portfolio, and the ratio of price to cash flow, in five to 95 percent, and a 90% probability of acceptance, is located.

**The fourth hypothesis**

The return on the portfolio shares, the ratio of price to sales (P / S), are related.

**Table (4): analysis Portfolios stocks that have been formed on the basis of price to sales**

Year	number of shares	$\alpha$	$\beta$	calculated t	The correlation coefficient (r)	The coefficient of determination	The adjusted coefficient of determination	F	The possibility	Consequently
2007	5	0/154	-0/021	-0/297	-0/056	0/003	-0/032	0/088	0/768	rejected
2008	5	0/188	-0/117	-2/093	-0/367	0/135	0/104	4/384	0/045	accepted *
2009	5	0/119	-0/102	-2/472	-0/423	0/179	0/149	6/112	0/019	accepted *
2010	5	-0/001	-0/059	-1/917	-0/340	0/116	0/084	3/676	0/065	accepted **
2011	6	0/105	-0/014	-0/272	-0/051	0/002	-0/032	0/074	0/787	rejected
2012	6	0/053	-0/120	-3/295	-0/528	0/279	0/253	10/860	0/002	accepted *
2013	6	0/012	-0/009	-0/370	-0/069	0/004	-0/030	0/136	0/714	rejected

The results of Table (4), in the period with 95% confidence in a period, with the possibility of 90% of the hypothesis H0, based on the lack of correlation between the returns of the stock portfolio, and the ratio of price to earnings is rejected and H1 hypothesis that a correlation between the returns of the stock portfolio, and the ratio of price to sell it will be accepted. And given the correlation relationship between portfolio returns and the ratio of price to sell its shares in the four courses will be accepted.

**Analysis of Price to Sales**

Next to Price, the sales per share Piro Barbi and et al (2008), and also because of the importance of communication that, with the ratio analysis, and the relationship of the analysis and portfolio shares, in the form of regression Univariate and multivariate, will be studied.

The price to sales per share ratio analysis, univariate and multivariate regression to determine the relationship between stock portfolio returns, and ratio analysis (individual and collective) will be examined.

**First sub hypothesis**

The first sub-hypothesis: the return of the stock portfolio, and profit on sale of portfolio shares (E / S), are related.

**Table 5: analysis Portfolios stocks that have been established based on the ratio of profit to sales.**

Year	number of shares	$\alpha$	$\beta$	calculate d t	The correlation coefficient (r)	The coefficient of determination	The adjusted coefficient of determination	F	The possibility	Consequently
2007	5	0/31	0/19	3/29	0/53	0/28	0/25	10/83	0/00	accepted *
2008	5	0/19	0/00	-0/10	0/00	0/00	-0/03	0/00	0/92	rejected
2009	5	0/05	-0/08	-2/28	-0/40	0/16	0/13	5/19	0/03	accepted *
2010	5	-0/03	-0/03	-0/93	-0/17	0/03	0/00	0/87	0/36	rejected
2011	6	0/11	0/00	0/07	0/00	0/00	-0/04	0/00	0/94	rejected
2012	6	-0/02	-0/10	-2/20	-0/39	0/15	0/11	4/85	0/03	accepted *
2013	6	0/02	0/00	0/17	0/00	0/00	-0/03	0/02	0/87	rejected

The results of Table (5), with 95% confidence in the hypothesis H0, based on the lack of correlation between stock returns of the portfolio, and the ratio of price to earnings, it is rejected and H1 hypothesis that a correlation between the returns of the stock portfolio, and the ratio of profit to sales, will be accepted. And according to the regression coefficients, inverse relationship between stock returns of the portfolio, and the ratio of profit to sales in the period and its direct relationship in a period is accepted.

**Second sub hypothesis**

The hypothesis of this study is the second subsidiary of the stock portfolio returns, and the ratio of book value equity portfolio benefit (B / E), there.

**Table 6: analysis Portfolios stocks that have been formed on the basis of book value of the benefit.**

Year	number of shares	$\alpha$	$\beta$	calculate d t	The correlation coefficient (r)	The coefficient of determination	The adjusted coefficient of determination	F	The possibility	Consequently
2007	5	0/27	-0/31	-5/87	-0/74	0/55	0/53	34/46	0/00	accepted *
2008	5	0/25	-0/13	-1/74	-0/30	0/09	0/06	3/05	0/09	accepted **
2009	5	0/05	0/16	3/08	0/50	0/25	0/22	9/50	0/00	accepted *
2010	5	0/01	-0/04	-1/26	-0/22	0/05	0/02	1/60	0/21	rejected
2011	6	0/16	-0/12	-2/28	0/38	0/15	0/13	5/23	0/02	accepted *
2012	6	0/00	0/14	3/12	-0/50	0/25	0/23	9/75	0/00	accepted *
2013	6	-0/02	0/07	1/81	0/31	0/10	0/07	3/29	0/08	accepted **

The results of Table (6), in four cycles with 95%, and 90% confidence in the hypothesis H0, based on the lack of correlation between stock returns of the portfolio, and the ratio of book value of benefits was rejected, and hypothesis H1 based on a correlation between the returns of the stock portfolio, and the ratio of the book value of its profits will be accepted. And according to the regression coefficients, inverse relationship between stock portfolio performance, and compared to the book value of its interest in three of its direct relationship in the period will be accepted.

**The third sub-hypothesis**

The stock portfolio performance, and cash flows for the benefit of portfolio equity ratio (CF / E), there.

**Table (7): Shares Portfolios analysis, based on the ratio of cash flow to interest have been established.**

Year	number of shares	$\alpha$	$\beta$	calculate d t	The correlation coefficient (r)	The coefficient of determination	The adjusted coefficient of determination	F	The possibility	Consequently
2007	5	0/19	-0/24	-3/56	-0/56	0/31	0/29	12/68	0/00	accepted *
2008	5	0/19	0/13	2/27	0/40	0/16	0/13	5/16	0/03	accepted *
2009	5	0/11	0/10	1/41	0/35	0/12	0/09	3/79	0/06	accepted **
2010	5	0/00	0/03	1/04	0/20	0/04	0/00	1/08	0/31	rejected
2011	6	0/11	0/06	1/58	0/28	0/08	0/05	2/51	0/12	rejected
2012	6	0/06	0/08	1/48	0/38	0/14	0/10	4/39	0/04	accepted *
2013	6	0/01	0/00	0/17	0/04	0/00	-0/03	0/03	0/86	rejected

The results of Table 7), in the period with 95% and 90% in the same period, ensure that the H0 hypothesis of no relationship between stock portfolio performance, and cash flows for the benefit of the rule, and the hypothesis that H1 The relationship between the return on the portfolio shares, the ratio of cash flow benefits will be accepted. Due to the inverse relationship between yield and regression coefficient stock portfolio, and the ratio of cash flow to its interest in a direct relationship of the three periods, will be accepted.

#### Fifth hypothesis

The stock portfolio yield and price to earnings ratio of the portfolio equity (P / E), and the ratio of profit to sales of equity portfolio (E / S), are related.

**Table (8): The**

Year	number of shares	$\alpha$					The coefficient of determination	The adjusted coefficient of determination	F	The possibility	Consequently
			P/E		E/S						
			$\beta$	T	$\beta$	t					
2007	5	0/41*	-0/25	-1/34	0/06	0/62	0/07	0/00	0/96	0/39	rejected
2008	5	0/43*	-0/32*	-2/17	0/02	-0/25	0/23	0/18	4/12	0/03	accepted *
2009	5	0/26**	-0/23**	-1/90	-0/07	-1/18	0/24	0/19	4/39	0/02	accepted *
2010	5	-0/05	0/00	-0/07	-0/07**	-1/84	0/13	0/06	1/96	0/16	rejected
2011	6	0/36	-0/28	-1/14	0/05	0/68	0/05	-0/02	0/65	0/53	rejected
2012	6	0/10	-0/17	-1/21	0/11*	-2/21	0/29	0/26	5/47	0/01	accepted *
2013	6	0/09	0/09	-0/80	0/01	0/34	0/02	0/05	0/33	0/72	rejected

#### results of the regression analysis

According to the results table (8), with 95% confidence in the hypothesis H0 is rejected and H1 hypothesis that at least one of the independent variables in the regression model is significant, will be accepted. Price to earnings ratios with 90 percent confidence for a period, and 95% in a period of significant and profitable to sell than in the same period by 95 percent, and in a certain period, 90%, was significant. The relationship of price to earnings, and return on the portfolio shares reverse course, and the relationship between profitability and efficiency portfolio to sell stock in a reverse course and has a direct course.

#### Sixth hypothesis

The return on the portfolio shares, the ratio of price to book value of the portfolio equity (P / B), the ratio of book value equity portfolio benefit (B / E), and the ratio of profit to sell stock portfolio (E / S), are related.

**Table (9): analysis of multiple regression analysis of the second kind**

Year	number of shares	$\alpha$	Regression coefficients						The coefficient of determination	The adjusted coefficient of determination	F	The possibility	Consequently
			P/B		B/E		E/S						
			$\beta$	t	$\beta$	T	$\beta$	t					
2007	5	0/25	-0/06	-0/36	-0/19	-0/93	-0/01	-0/06	0/04	-0/07	0/33	0/80	rejected
2008	5	0/34**	-0/21	-1/51	-0/40**	-1/86	-0/10	-0/93	0/21	0/12	2/30	0/10	accepted **
2009	5	0/43*	-0/39*	-2/57	-0/66*	-2/47	-0/16	-1/64	0/33	0/25	4/22	0/01	accepted *
2010	5	-0/01	-0/07	-0/79	-0/18	-1/55	-0/13**	-1/95	0/20	0/11	2/18	0/11	rejected
2011	6	0/18	-0/06	-0/32	-0/18	-0/70	-0/02	-0/21	0/01	-0/09	0/17	0/91	rejected
2012	6	0/19	-0/33*	-2/24	-0/05	-0/36	0/01	0/18	0/38	0/31	5/38	0/00	accepted *
2013	6	0/10	-0/21**	-1/83	0/05	0/37	0/09	1/71	0/16	0/06	1/62	0/20	rejected

According to the results table (9) in two periods with 95 percent, and in a period with 90% confidence hypothesis H0 is rejected and H1 hypothesis that at least one of the independent variables in the regression model is significant accepted be. Price to book value ratio, in a period with 90% confidence interval, 95% was significant in both periods, the ratio of book value to earnings in the period, with 95% and 90% in the period to ensure meaningful respectively, and the ratio of profit to sales in the same period, with 90 percent confidence, was significant. The relationship of price to book value, sales income and book value, profit and return on equity portfolio in this period has been reversed.

**Seventh hypothesis**

The stock portfolio yield, price to cash flow ratio and portfolio equity (P / CF), the ratio of cash flow to benefit the stock portfolio (CF / E), and the ratio of profit on sale of portfolio shares (E / S), are related.

**Table 10: The results of multiple regression analysis third**

Year	number of shares	$\alpha$	Regression coefficients						The coefficient of determination	The adjusted coefficient of determination	F	The possibility	Consequently
			P/CF		CF/E		E/S						
			$\beta$	T	$\beta$	T	$\beta$	T					
2007	5	0/51*	-0/32**	-2/03	-0/09	-0/54	0/13	1/24	0/14	0/04	1/42	0/26	rejected
2008	5	0/47*	-0/25**	-1/90	0/11	0/73	0/12	1/27	0/38	0/31	5/31	0/00	accepted *
2009	5	0/19	-0/15	-1/28	-0/11	-1/03	-0/07	-1/00	0/20	0/12	2/30	0/10	accepted **
2010	5	0/08	0/12	-0/95	0/05	-0/54	0/03	-0/44	0/16	0/06	1/61	0/20	rejected
2011	6	0/19	-0/09	-0/44	0/00	-0/02	0/03	0/36	0/01	-0/10	0/09	0/96	rejected
2012	6	0/14	-0/21	-1/58	-0/14	-0/92	-0/08	-1/13	0/31	0/24	4/02	0/01	accepted *
2013	6	0/00	0/03	0/24	0/07	0/54	0/00	0/15	0/01	-0/09	0/14	0/94	rejected

According to the results table (10), in two periods with 95 percent, and in a period with 90% confidence H0 hypothesis is rejected, and the hypothesis H1, that at least one of the independent variables in the regression model is significant, accepted is. In this section only an aspect ratio of price

to cash flow in the period with 90 percent confidence, was significant, and the relationship of price to cash flow, and return on the portfolio shares reverse course, respectively.

### Conclusion

The results of the evaluation of hypotheses, showing proof of claim of the researcher's assumptions, and you can then insert that investors and financial institutions, some choose to stock, the lowest ratio of price to earnings, price to book value, price to cash flow, and price to sell them. It can be said that investors and financial institutions, it is recommended that, at the time of the abandonment of the shares to cash flow and dividends have more attention.

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