

The Relationship between Different Dimensions of Liquidity to the Financial Turmoil Firms Listed in the Tehran Stock Exchange

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ABSTRACT

One of the most important and extensive research in financial markets illustrate the behavior of stock returns. Investigate the determinants of changes in stock returns in Tehran Stock Exchange may improve investment decision and optimal allocation of resources. The aim of this study was to investigate the effect of different aspects of liquidity (trading volume, illiquidity AMIHOUD and number of trading days with zero returns on financial turmoil firms respectively). To test these hypotheses, a sample of 141 companies listed in stock the hypothesis of multivariate regression was used to panel data. Laura et al (2016), test results indicate that the first hypothesis of research on the relationship between trading volume with significant default risk firms and has the opposite effect; therefore, first research hypothesis is rejected. and assuming fixed taking into account all factors affecting default risk, with a unit change in the volume of stock trading, bankruptcy risk -0.3615 altered. the second hypothesis of research on the relationship of it is an inverse relationship.

KEYWORDS

trading volume, illiquidity AMIHOUD, the financial turmoil, stock returns

INTRODUCTION

Standard pricing models, such as capital assets pricing model (CAPM), by adding factors to enhance the explanatory power of stock returns has been widely used in financial literature (Hearne, 2010). Recently liquidity as one of the explanatory variables efficiency, widely used and various methods have been proposed to calculate it (Hearne, 2010; Hearne et al., 2010).

On the other hand, the liquidity phenomenon of complex, multi-dimensional concept is confusing. All liquidity measures to considerably more than that can be a study to investigate the relationship between returns and liquidity in

used. Atiken and Winn (1997) reported that about 68 liquidity criteria used in different studies, but there is no consensus regarding the best standard to use. Also, it is reported that the correlation between most of the criteria, or less between many of them, there is no type of relationship (Lee Humac, 2010: 31; Marshall, 2006).

Stock market investors are trying to efficiency and risk factors that affect stock is detect. One of the factors that greatly affect the interests of investors is corporate financial distress, the various dimensions of liquidity to the financial turmoil role as a contributing factor to account for much of this research. In this study was to determine the effect of different aspects of liquidity to the financial turmoil will be discussed.

STATEMENT OF THE PROBLEM

Liquidity dimensions measured by various criteria and all liquidity measures to considerably more than what they can in a study to examine the relationship between returns and liquidity applied. Atiken and Winn (1997) reported that about 68 liquidity criteria used in different studies, but there is no consensus regarding the best standard to use. Also, it is reported that the correlation between most of the criteria, or less between many of them, there is no type of relationship (Lee Humac, 2010: 31; Marshall, 2006).

Liquidity literature has traditionally been limited to only one dimension of this phenomenon are multidimensional structures that cover. For example, the price difference between the proposed AMIHOUD criteria and Mendelsohn (1986) is related to transaction costs, turnover ratio Dytar et al (1998) also consider the volume of transactions, speed of transaction into account the size and the speed and volume orders measures and AMIHOUD criteria (2002) and Pasteur and inferential (2003) reflect the effect of the price. Existing measures have limited ability to measure liquidity risk, and may even have to measure the exact shape not work (Hearne, 2010: 243; Liu, 2006: 632) Also raises concerns about the use of one-dimensional criteria based on the fact that they finally illiquidity, not define it in local markets, while small, is very common (Lesmond, 2005; Hearne,

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2010: 243). Free cash flow hypothesis by Jensen (1986) was introduced. According to this hypothesis, pay dividends to shareholders, the company's free cash flow reduces. Therefore, the expected increase in dividends payable, by reducing the ability of managers to avoid carrying out activities contrary to the interests of shareholders, interests increase shareholder value.

Agandyp et al (2012) argue that the main advantages of cash holdings include the ability to reduce the likelihood of problems, pressures and financial constraints that might be looking for Maximize investment policies and limits or is likely caused financing and the role of Stick it in the minimization of the cost of foreign funding of basic subject's investment in liquidity assets. The role of liquidity in assets valuation is very important. This is because investors are concerned that if they want to sell your property, whether the market is suitable for them or not? Liquidity of a stock sheet mean no matter how fast it is possible to sell the shares can be sold faster and with less cost could be said that the stock of liquidity is more (Yahya zadeh far et al., 1389) Liquidity: In a relationship with cash holdings there are two views: according to Kaplan and Zingales (1997), the high level of cash assets associated with the lack of financial turmoil. Since that investors will not be subject to the availability of financing, the level of cash holdings So the companies that are less than the median for all companies included in the sample will be in Group companies with financial turmoil classification. But according to Fazzari et al. (2000), the high level of surplus financial resources, the contrary may indicate financial distress. Since limited because firms do not have the ability to substitute domestic and foreign financing, cash assets accumulated by businesses which are financially prediction are limited (Hovidary et al., 2009). This study seeks to answer the question of whether different aspects of liquidity to the financial turmoil Work?

RESEARCH BACKGROUND

Laura et al (2016) to research various aspects of liquidity and the capital and financial turmoil in Europe's banking industry for the period 2004- 2013. The findings of this study shows the effects of liquidity on the severity of the impact of the financial turmoil in companies that benefit from lower working capital is higher.

John et al (2016), using stock data related to 27 emerging market, liquidity behavior and its impact on the financial turmoil in emerging markets examined. Those criteria turnover ratio, turnover ratio variability transaction value as market liquidity measures were used, found that financial turmoil in emerging countries are inversely associated with market liquidity. They found that these results even after controlling for factors such as beta market, the market capitalization and the ratio of price to book value in both cross-sectional and time series analysis is still valid.

Chen (2016) by combining seven criteria including liquidity of the proposed price difference between irrationality and sales, stock turnover ratio, the ratio of illiquidity AMIHOUD, reverse Pastor & Stambaugh and the use of principal component analysis to extract public

resources, liquidity, the effect of the liquidity of the market. the default risk assessed and showed that liquidity is a major risk factor.

FadayiNejad and KhorramNia (1391) The Information Content of disclosure of corporate profits and its effect on liquidity and information asymmetry in Tehran Stock Exchange for the period 1385 to 1389 were studied. They concluded that, given that dropped after the announcement of AMIHOUD Since this ratio indicates a lack of liquidity, it can be concluded that this announcement is to increase market liquidity.

Sirani et al (1390) Risk factors include the impact of liquidity risk and market risk, company size, the ratio of book value to market capitalization and free float shares on the Tehran Stock Exchange sectional returns examined and found that the market risk, company size and float have significant relationship, but the relationship between book-to-market efficiency and liquidity risk is not significant returns. They also found that the relationship between systematic risk and liquidity risk exists in the Tehran Stock Exchange.

RESEARCH HYPOTHESIS

First Hypothesis: the volume of stock trading companies associated with the risk of bankruptcy.

The second Hypothesis: the lack of liquidity AMIHOUD with default risk associated companies.

The third Hypothesis: the number of trading days with returns zero default risk associated companies.

THE SCOPE OF RESEARCH

Territory subject of the research: This research examines the relationship between different aspects of liquidity to the financial turmoil company is listed on the Tehran Stock Exchange.

Territory where research: Territory where this research publicly traded company listed on the Stock Exchange of Tehran.

Once the domain of research: temporal scope of this study is the period from the beginning of 1387 until the end of 1394.

COMMUNITY AND SAMPLE

Study in time for the period 1387- 1394 and the place, firms listed in the Tehran Stock Exchange. The population in this study are all companies listed on the Tehran Stock Exchange.

1. For the purpose of comparing data, the end of the fiscal year ending on 29 March.
2. In order to homogeneity of information, is produced.
3. Shares trading during the period of more than three months in Tehran Stock Exchange has not stopped.
4. Information on selected variables in this study are available.

By applying the above conditions, the number of 141 companies were selected for the period 1387 to 1394.

MODEL AND VARIABLES

Model used for the first hypothesis to third:

$$(1) \quad FDis_{it} = \alpha_1 + \alpha_2 LIQ_{it} + \alpha_3 ROAA_{it} + \alpha_4 CIR_{it} + \alpha_5 NPL_GL_{it} + \alpha_6 DIV_{it} + \alpha_7 SIZE_{it} + \alpha_8 HHI_{it} + \varepsilon_{it}$$

$$(2) \quad FDis_{it} = \alpha_1 + \alpha_2 Turnover_{it} + \alpha_3 ROAA_{it} + \alpha_4 CIR_{it} + \alpha_5 NPL_GL_{it} + \alpha_6 DIV_{it} + \alpha_7 SIZE_{it} + \alpha_8 HHI_{it} + \varepsilon_{it}$$

$$(3) \quad FDis_{it} = \alpha_1 + \alpha_2 zero_{it} + \alpha_3 ROAA_{it} + \alpha_4 CIR_{it} + \alpha_5 NPL_GL_{it} + \alpha_6 DIV_{it} + \alpha_7 SIZE_{it} + \alpha_8 HHI_{it} + \varepsilon_{it}$$

Dependent Variable (FDis_{it}):

The financial health of the business: the ability to timely payment of obligations of an entity are said Altman z as variable criteria we use alternative financial health, standard of values z represents the entity's financial position is healthy.

Independent variables:

LIQ: to follow AMIHOUD (2002), the lack of liquidity as the ratio of the absolute value of the daily stock returns and trading volume of the stock on that day defined by the following equation is calculated for each share.

$$ILLIQ_{i,t} = \frac{1}{D_{i,t}} \sum_{d=1}^{D_{i,t}} \frac{|R_{i,d,t}|}{V_{i,d,t}}$$

Where R_{i,d,t} return on equity i on day d in month t and V_{i,d,t} the turnover of the stock on that day (in million rials) is. It should be noted that this criterion is a measure of illiquidity.

Turnover: to abide by Chang et al (2010), mean volume of daily transactions per month, as a measure of liquidity used.

zero: to follow Lesmond(1999), the number of days the company's stock is traded with a yield of zero is considered

as a measure of liquidity and is calculated by the following equation.

$$Zero_{i,t} = \frac{Zero_{return_{i,t}}}{Tradingday_{i,t}}$$

Where Zero return_{i,t} yields zero trading days for the stock i in month t and Trading day_{i,t} trading days of stock i in that period. This measure is also a measure of liquidity.

Control Variables and other Variables:

ROAA: Net profit divided by the average total assets

CIR: financial expenses divided by operating profit

NPL_GL: financial liabilities divided by total assets

DIV: financial costs divided by net income

SIZE: logarithm of total assets

HHI: competition, product market (Hirschman and Herfindal index).

The Herfindal-Hirschman: As research Valyval et al (2008) Growlen and Michaily (2008), Folum (2009), Hey (2009), Marsi okitit and Park (2009) was used as a measure of competitiveness through the relationship is calculated.

$$HHR = (x + a)n = \sum_{i=1}^{Nj} \left(SALES_{i,j} / \sum_{i=1}^{Nj} SALES_{i,j} \right)^2$$

In this regard, Sales_{i,j} total sales of company i in industry j, the Herfindal-Hirschman measure industry concentration, the more the higher the index, indicating greater concentration and less competition in the industry and conversely.

DESCRIPTIVE STATISTICS

In this section merely describes the purpose of calculating the sample and the sample is analyzed. Table 1 shows an overview of descriptive statistics used by researchers. This statistic related to 154 companies during Farvardin 1387 to Persian date Esfand 1394 which includes 1224 of the company.

Tab .1. Descriptive statistics of variables used in the model

Statistics	FD	LIQ	TURNOVE R	ZERO	ROAA	CIR	NPLGL	DIV	SIZE	HHI
Mean	1.335207	0.010602	0.001025	0.280182	0.100542	0.251432	0.233491	0.102894	13.72449	0.14083
Median	1.238486	0.000240	0.000475	0.188255	0.093073	0.176560	0.186123	0.038644	13.59404	0.05216
Maximum	16.45435	0.855300	0.024784	0.911110	2.755768	194.8515	2.960067	13.67213	19.10620	19.7559
Minimum	18.60481	0.000000	4.63E-06	0.047620	1.005401	186.4490	0.000000	0.000000	10.03122	0.00000
Std. Dev.	1.052794	0.051147	0.002037	0.225560	0.184055	10.80276	0.296346	0.471627	1.556950	0.67401
Skewness	1.923002	11.64331	7.279070	0.903074	2.910831	2.343610	5.503143	21.24912	0.753112	21.8645
Kurtosis	3.78532	3.447254	4.629714	2.584818	5.500436	6.797278	4.464867	3.844098	3.866266	4.34058
Jarque-Bera	1.589260	1.435887	1.2502007	1.745896	1.212976	1.638937	1.782387	1.6656509	1.534723	1.823530
Probability	0.382675 1	0.4127388	0.44379621	0.2973822	0.4298733	0.3276828	0.2437683	0.3428379	0.3879451	0.173857 3
Observations	1224	1224	1224	1224	1224	1224	1224	1224	1224	1224

In the table above normal for the variables used to test jarque-bera is seen as all the variables are normally distributed (in jarque-bera test for normality of variables H0 shows, Thus, since the error level is therefore more than 5% of all variables H0 hypothesis is not rejected).

HYPOTHESES TESTING

To study to determine the method of any of the models of F-Limmer Test choose between any of the models and panel data integration and Brush-Pagan test is used to determine Volatility. Regression results obtained using statistics and probability Z and x2 were analyzed. The results are described in terms of testing each hypothesis.

Tab .2. Summary F-Limmer test results to determine the regression model estimation method (4-1)

result	p – value	Test	Test
Panel Data Methods	0.0000	1.790871	F-Limmer

Tab .3. Summary Hausman test results to determine the fixed and random effects model

result	p – value	Test	Test
Random effects model	0.4375	6.917274	Hausman

First hypothesis: the volume of stock trading is associated with the risk of bankruptcy.

Tab. 4. The results

$$FDiS_{it} = \alpha_1 + \alpha_2 Turnover_{it} + \alpha_3 ROAA_{it} + \alpha_4 CIR_{it} + \alpha_5 NPL_GL_{it} + \alpha_6 DIV_{it} + \alpha_7 SIZE_{it} + \alpha_8 HHI_{it} + \epsilon_{it}$$

Level of significance	T-statistic	SD	Coefficient	variable
0.7019	-0.382915	0.256982	-0.098402	C
0.0000	-3.988115	0.090738	-0.361523	TURNOVER
0.0014	3.195288	0.179201	0.572600	ROAA
0.4063	-1.245271	0.092226	-0.100546	CIR
0.0006	2.098177	0.059834	0.125292	NPLGL
0.0009	-2.013738	0.063967	-0.128616	DIV
0.0000	5.510753	0.018708	0.103094	SIZE
0.6677	-0.429365	0.035946	-0.015434	HHI
0.493918	Coefficient of determination (R ²)	1.967976		Durbin-Watson statistic
0.487060	R ² Adjusted	13.69517		F statistic
		0.000000		Significant statistic F

Since the Durbin-Watson statistic is almost close to 2 Best possible sign of lack of autocorrelation between components is disturbing. The F-statistic indicates the validity of the model.

As shown in Table 4 coefficient of determination, the results of the regression model, the relationship is equal to

R2 = 049. The estimated coefficient of determination, the fact that about 49% of the dependent variable explained by the independent variables.

As can be seen in Table 4, rejected the possibility of coefficient estimates for the volume of stock trading at 0.0000 against the sample companies. Since this value is less than 0.01. Therefore, the coefficient is significant at the level of one percent. The first hypothesis of research on the relationship between the volume of stock trading at significant risk of bankruptcy and have the opposite effect. Therefore, the first research hypothesis is not rejected. And assuming fixed taking into account all factors affecting default risk, with a unit change in the volume of stock trading, Bankruptcy risk -0.3615 changes.

The second hypothesis: the lack of liquidity AMIHOUD the default risk associated firms.

F-Limmer results for this regression model indicates that the probability statistic F, 0.0000, and since this amount is less than 05/0, H_0 assumed that the assay data is integrated rejected. The second hypothesis is used to estimate the model using panel data. F-Limmer summary results for the model shown in Table 5.

Tab .5. Summary F-Limmer test results to determine the regression model estimation method (4-2)

result	p – value	Test	Test
Panel Data Methods	0.0000	2.356790	F-Limmer

Tab .6. Summary Hausman test results to determine the fixed and random effects model

result	p – value	Test	Test
Using fixed effects	0.0000	2.63794	Hausman

Tab .7. The results

$$FDiS_{it} = \alpha_1 + \alpha_2 LIQ_{it} + \alpha_3 ROAA_{it} + \alpha_4 CIR_{it} + \alpha_5 NPL_GL_{it} + \alpha_6 DIV_{it} + \alpha_7 SIZE_{it} + \alpha_8 HHI_{it} + \epsilon_{it}$$

Level of significance	T-statistic	SD	Coefficient	Variable
0.0000	-2.697510	0.076077	-0.192566	C
0.0000	-2.248374	0.059818	-0.144012	LIQ
0.0042	2.870213	0.184659	0.530012	ROAA
0.0000	-5.395401	0.012784	-0.068544	CIR
0.8067	-0.244683	0.115005	-0.028140	NPLGL
0.0000	-2.379054	0.064889	-0.150552	DIV
0.0000	5.382756	0.020173	0.108586	SIZE
0.0000	-2.565932	0.045977	-0.116824	HHI
0.839666	Coefficient of determination (R ²)	1.841468		Durbin-Watson statistic
0.834120	R ² Adjusted	21.15196		F statistic
		0.000000		Significant statistic F

Since the Durbin-Watson statistic is almost close to 2 Best possible disturbing elements. Also, statistics show that the autocorrelation between F indicates the validity of the model.

As shown in Table 7 coefficient of determination, the results of the regression model, the relationship is independent of $R^2 = 0.84$ is explained; the independent variables and the dependent variable is the relation above.

As shown in Table 7, the possibility of rejection of the estimated coefficient for illiquidity AMIHOUD in the sample companies is equal to 0.0000. Since this value is less than 0.01. Therefore, the coefficient is significant at the level of one percent.

The second hypothesis on the relationship AMIHOUD illiquidity risk of company failure and has significant adverse effects. Therefore, the second hypothesis is not rejected.

The third hypothesis: the number of trading days with returns linked zero-risk bankruptcy.

F-Limmer results for this regression model indicates that the probability statistic F, 20357/0 and since this is more than 05/0, let's H_0 using panel data cannot be denied. The third model is used to estimate using panel data. F-Limmer summary results for the model shown in Table 8.

Tab .8. Summary F-Limmer test results to determine the regression model estimation method (4-3)

Result	p – value	Test	Test
Method of integrated data	0.2035	1.103429	F-Limmer

Tab .9. The results

$FDis_{it} = \alpha_1 + \alpha_2 zero_{it} + \alpha_3 ROAA_{it} + \alpha_4 CIR_{it} + \alpha_5 NPL_GL_{it} + \alpha_6 DIV_{it} + \alpha_7 SIZE_{it} + \alpha_8 HHI_{it} + \varepsilon_{it}$				
Level of significance	T-statistic	SD	Coefficient	variable
0.0007	-2.253943	0.066959	-0.153419	C
0.0000	-3.265136	0.061711	-0.206146	ZERO
0.0036	2.916845	0.184549	0.538301	ROAA
0.0000	-32.17159	0.002781	-0.090476	CIR
0.0005	-2.191105	0.054958	-0.121969	NPLGL
0.0002	-2.214299	0.064859	-0.146328	DIV
0.0000	5.435989	0.020163	0.109606	SIZE
0.0000	-2.269232	0.045947	-0.104208	HHI
0.871554	Coefficient of determination (R^2)	1.945235		Durbin-Watson statistic
0.866019	R^2 Adjusted	29.56805		F statistic
		0.000000		Significant statistic F

Since the Durbin-Watson statistic is almost close to 2 Best possible sign of lack of autocorrelation between components is disturbing. The F-statistic indicates the validity of the model.

As shown in Table 9 coefficient of determination, the results of regression equation (4-3) is equal to $R^2 = 0.87$. The estimated coefficient of determination, the fact that about 87% of the dependent variable explained by the independent variables, independent variables and the dependent variable, which is indicated above.

As can be seen in Table 9, the possibility of rejection coefficient estimates for the number of trading days with a yield of 0.0000 against the sample companies is zero. Since this amount is less than 0.05, the coefficient is significantly above the level of one percent. The third hypothesis about the relationship that the number of trading days with returns zero default risk posed significant at a confidence level relationship is reversed.

CONCLUSION

– Analysis of the results of the first hypothesis:

First hypothesis: the volume of stock trading is associated with the risk of bankruptcy.

As you can see, the likelihood of rejection coefficient estimates for the volume of stock trading at 0.0000 against the sample. Since this value is less than 0.01. Therefore, the coefficient is significant at the level of one percent. The first hypothesis of research on the relationship between the volume of stock trading at significant risk of bankruptcy and have the opposite effect. Therefore, the first research hypothesis is not rejected. And assuming fixed taking into account all factors affecting default risk, with a unit change in the volume of stock trading, Bankruptcy risk 0.3615-changes. King and colleagues (2013) in a study entitled impact of liquidity strategies and evaluate the performance of the company as a case study for chemical industries in Pakistan for the period 2002-2011 were examined. In this study, the panel data model with fixed effects model was used. They AMIHOUD criteria, turnover, turnover ratio, the value of trades as liquidity factors and the company's market value to book value as evaluation criteria used, the results of this research show a significant relationship of all the company's liquidity factors with the evaluation criteria.

– Analysis of the results of the second hypothesis:

The second hypothesis: AMIHOUD illiquidity associated with risk bankruptcy.

As you can see, the likelihood of rejection of the estimated coefficient for illiquidity AMIHOUD in the sample companies is equal to 0.0000. Since this value is less than 0.01. Therefore, Therefore, the coefficient is significant at the level of one percent respectively.

The second hypothesis of the study about the relationship between illiquidity and insolvency risk Myhvd have the opposite effect. Therefore, the second hypothesis is not rejected. AMIHOUD illiquidity response criteria (sensitivity) than the current stock market price, the order shows. In fact, this criterion is on this basis that a stock of liquidity is lower (The standard size for a high illiquidity AMIHOUD). If the stock price reaction to a small volume of stock trading to significantly change the standard of illiquidity AMIHOUD price reaction after the stock market relative to order flow measures. The market is more stable

stock price in the numerator of the same size will be smaller. As a result, we can say that the higher standard of illiquidity AMIHOUD with lower liquidity communications market (and vice versa). Hasberok (2007) notes that in between all standard liquidity measures market illiquidity seems AMIHOUD best markers (viral & Pedersen, 2005,148).

– **Analysis of the results of the third hypothesis:**

The third hypothesis: the number of trading days with returns zero default risk associated firms.

As you can see, the likelihood of rejection coefficient estimates for the number of trading days in firms with zero yield of 0.0000 against Democrats. Since this amount is less than 0.05, the coefficient of the error level a significant percent respectively. The third hypothesis about the relationship so that the number of trading days with returns zero default risk posed significant at a confidence level and a negative correlation respectively. Lesmond, Agden and Tersinka in 1999, the number of days the company's stock is traded with a yield of zero as a measure of liquidity they are considered. Stock with low liquidity with an important loss of more days with zero returns. Leo (2015) provide a heuristic criterion as a standard turnover ratio based on the number of days with zero trading volume, according to his multi-dimensional criteria with particular emphasis on the speed of transactions, the relationship between liquidity and default risk given the size of firms into ordinary shares on the NASDAQ, New York and Mks studied. Leo indicated that innovative measures were highly correlated with measures proposed price differential, turnover ratio and new liquidity standards AMIHOUD and stocks whose standards are less in small firms, financial turbulence and the new criteria may yield more stock for has predicted a year or more.

• **Recommendations based on findings:**

investors should buy stocks of firms in their decisions, the size of the stock liquidity and default risk firms pay attention. in other words, given the negative relationship between liquidity and risk of bankruptcy, it can be concluded that Firms with low default risk was high stock liquidity and the possibility of continuing activities as well as optimum use of resources available for them is, therefore, it is recommended to investors and analysts golfers in the choice of portfolio investment capital to the results of this research.

• **Suggestions for future researches:**

1. It is recommended Using other measures of liquidity and cash holdings due to take place on default risk firms.
2. to undertake research with different aspects of liquidity and default risk as firms with firms paid attention to growth opportunities.

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