Investigating the effect of product market advertising and the risk of falling stock prices in the future of Iran

Extended Abstract

Abstract

The main purpose of this research is to investigate the effect of product market advertising on the risk of falling stock prices in the Iranian stock market. Considering the increasing importance of advertising in attracting customers and investors, companies use advertising as a tool to increase revenue and improve their position in the market. However, advertising can also have indirect and negative effects on the stock market. One of the most important of these effects is increasing the risk of falling stock prices. Advertisements may lead to unrealistic expectations of the performance of companies, which in turn can lead to sharp fluctuations in stock prices and ultimately their collapse.

Purpose

Therefore, the purpose of this research is to examine this relationship in detail, and in particular, it seeks to determine how product market advertising affects stock price downside risk. The statistical population of this research is the companies accepted in the Tehran Stock Exchange. This research was conducted in a period of five years (1395 to 1400) and includes 100 companies from different industries that were selected based on access to financial and advertising data. The statistical sample has been selected by the purposeful sampling method so that the companies that have a significant advertising activity and at the same time detailed financial information about them are available to be investigated in this research.

Methodology

The research method of this study is descriptive-analytical and multivariate regression models were used to analyze the data. First, data related to product market advertising was collected through annual reports of companies and reliable databases. Then, the variables related to the risk of falling stock prices, including NCSKEW and DUVOL, were selected as dependent variables. In the following, variables such as AD_INTENSITY (advertisement intensity) as independent variables and control variables such as company size, book value to market ratio (BM), financial leverage (LEV), return on assets (ROA) and stock turnover rate (TURNOVER) in the models Regression entered. Statistical analyzes were performed using EViews software, which is one of the most reliable software in the field of financial and economic analysis and provides the possibility of implementing complex regression models and panel data analysis. The findings of the research show that the intensity of

product market advertising has a significant and positive effect on the risk of falling stock prices.

Finding

The regression results showed that AD_INTENSITY as the main independent variable with positive and significant coefficients affects NCSKEW and DUVOL indices. These coefficients indicate that the more intense the company's advertisements are, the more likely their stock prices will fall. One of the main reasons for this phenomenon can be that advertising leads to an increase in investors' attention to the company and, as a result, creates higher expectations of the future performance of companies. However, if companies fail to meet these expectations, extreme volatility and eventual stock price collapse will occur. Another important finding of this research is related to the mediating effect of investors' attention and stock overvaluation. In this study, the variables POST (investors' attention through social networks) and SEARCH (online searches) were investigated as proxies of investors' attention. The results showed that both POST and SEARCH variables have a significant effect on the relationship between advertising and the risk of falling stock prices. These findings show that advertising by attracting more attention of investors leads to increase in volatility and increase in the risk of falling stock prices. Also, variables OV1 and OV2, which indicate overvaluation of stocks, showed that advertising can play an important role in increasing the risk of price collapse by creating unrealistic expectations of stock prices. On the other hand, the results show that control variables such as company size (LNTAt), book value to market ratio (BMt), financial leverage (LEVt) and return on assets (ROAt) also affect the risk of stock price fall. For example, BMt found that companies with lower book-to-market ratios are more at risk of falling stock prices. Also, LNTAt found that larger companies are generally less exposed to extreme price volatility and bankruptcy risk.

Conclusion

Finally, this research shows that advertising acts as a key factor in increasing the risk of falling stock prices. Advertisements can lead to unrealistic expectations of the future performance of companies and increase volatility in the market. Especially in markets like Iran where information is less transparent and there is a high level of information uncertainty, advertising can play a more important role in increasing financial risks. These results highlight the importance of carefully managing advertising and setting investors' expectations. The final conclusion of this research is that product market advertising can have significant effects on stock market volatility and stock price crash risk. These findings advise company managers and financial policymakers to carefully consider the effects of advertising on the market and not to use advertising as a tool to manage investors' unrealistic expectations.