African Journal of Business Management Vol.5 (10), pp. 3777-3780, 18 May 2011
Available online at http://www.academicjournals.org/AJBM
DOI: 10.5897/AJBM09.267
ISSN 1993-8233 ©2011 Academic Journals

Full Length Research Paper

Addressing the knowledge of the trend rate of the company's stock on the basis of information without financial content

Ionel Bostan

Faculty of Economic Sciences and Public Administration, University of Suceava, Romania.
E-mail: ionel_bostan@yahoo.com.

Accepted 17 December 2010

Analysts' forecasts of future stock prices are of interest for several categories of stakeholders: investors, brokerage firms, investment and merchant banks, etc. These forecasts are even more important since the amounts invested on these specific markets are quite substantial. The present paper focuses on several aspects related to the methods used to estimate the stock market trend by using non-financial information, and encompasses several elements that best describe economic dynamics/instability.

Key words: Economic dynamics/instability, company stock, secondary market, forecasting analysis, non-financial information.

INTRODUCTION

Economic forecasting has been a highly intriguing subject for quite some time. Besides, the increasing interest in the subject accounts for the numerous economic growth theories and models directed at analyzing the medium and long term trends affects the economic processes and phenomena. The present endeavour addresses the causes, the factors and the circumstances that define a dynamic equilibrium and, based on these aspects, subsequently identifies certain strategic elements that are meant to support the completion of some specific growth and development objectives. The attempts to identify the stock market trends are closely related to the aforementioned pursuits and they mainly consist in analysing certain financial, as well as non-financial data and information. Therefore, our observations should make reference to several economic literature precedents (Becalli, 2005; Becalli et al., 2006; Esterwood and Nutt, 1999), that support the importance of the subject and also address the strengths and weaknesses of the system or elucidate the various critical issues.

MACROECONOMIC DYNAMICS, UNDERLYING FRAMEWORK OF FINANCIAL MARKETS

There are several institutional sectors functioning in any domestic economy and acting as groups of entities with similar economic behavioural patterns. The inclusion of these units in each sector (Poulon, 1996) is based on their respective economic function and on the essential resources they employ (Table 1). The thorough and extensive research conducted on macroeconomic systems reveals the fact that there is a connection between the structure of national economies and the occurring economic cycles, thus supporting and justifying the idea that economic fluctuations are influenced by the evolution of macroeconomic structures and by the unpredictability of certain elements within those structures.

The unstable character of the economic components is partly caused by economic events and can also be due to other occurrences, such as political circumstances, psychological motivations, civilization level, international

Table 1. Institutional sectors and their economic functions.

Institutional sector	Main economic function
Non-financial corporations and quasi-corporations	Production of market goods and non-financial services
Financial corporations	Financial activities
Insurance corporations	Insurance activities, that is, transforming individual risks into collective risks by covering the claims arising from an individual risk
General government	Production of non-market services for public consumption as well as the redistribution of income and wealth
National private corporations	Production of non-market services for private households or production of free market services for households
Households	Consumption: production of non-financial market goods and services, when referring to individual entrepreneurs

Source: Poulon (1996).

exchange terms and relationship of each economy with certain international organisations or membership status to various groups of states. Economic fluctuations generally occur in cycles and are influenced by both quantitative and qualitative factors that determine the duration and the specific characteristics of each economic stage (Ignat et al., 1998). The passage of time has revealed a certain regular repetitiveness of the periods of progress followed by years of stagnation. This recurrence comes about in longer or shorter cycles whose common feature is that their alternating ascending and descending periods are determined both by exogenous causes (climate, wars, uprisings, discovery of new mineral resources, demographics, etc) and by endogenous economy-related factors (Lămătic and Bostan, 1999). There are currently stringent debates on identifying the methods needed for anticipating the average length cycle (approximately 10 years) and on the measures that need to be enforced in order to alleviate its effects. This type of economic cycle is similar to all other cycles and consists of an ascending and a descending phase, while its specific stages consist of: recession, trough, recovery and expansion. However, the actual development of economic activities, based on the laws of private property and influenced by competition, reveals that, in most cases, the business cycle stages do not occur in the aforementioned order and the duration of each stage can be prolonged or shortened, thus providing only a mere orientation for predicting the future state of the economy. The explanation lies in the fact that the market economy system contains certain perturbing factors that are the underlying cause of the fluctuations and of the often "surprising" movements of the economy. Clearly, all these elements obstruct any attempt to forecast what is going to happen in the economy. The aforementioned context is largely similar in situations where attempt are made to estimate the market trend of the stocks of various companies.

THE ROLE OF INFORMATION IN MAKING THE DECISION TO BUY STOCKS

The decision to invest in such a financial product requires an analysis of the stock quotes, of the average daily traded volume and of other specific indicators. The information provided daily in the traded stock reports refer to (Stock Analysis, 2010) the number and the most active share volume, today's average, lowest and highest sale prices, the last sale price, the fluctuations of the average trade price to the previous trading day's last reported trade price, etc. The investors that are interested in purchasing stock frequently conduct an extended analysis of certain details – as part of a technical or a fundamental analysis (Table 2).

Clearly, technical analyses require a thorough examination of the company's periodic financial statements (balance sheet, profit and loss account, etc) and a detailed analysis of the profits, dividends, liabilities and equity book value, but professional financial analysts are the only ones that possess the skills and qualifications to conduct such inquiries.

FRAMEWORK OF THE NON-FINANCIAL INFORMATION THAT CAN ASSIST IN THE FORECASTING OF STOCK MARKET TRENDS

Financial practice has revealed that not even the most rigorously prepared financial statements that strictly

Table 2. Relevant information (key aspects) for making the decision to purchase stock.

During the technical analysis	During the fundamental analysis
The nature of the respective stock market: irregular trading or the reduced daily share volume reveals to the buyer that the market circumstances do not support the decision to invest in stock listed at a convenient price and that could be further resold.	The contents of the most recent news and information on the issuing company: the paid/not paid dividends, bankruptcy, existence of foreign business partners, introduction of new products, increasing quarterly financial output.
The position of the stock price between the historical highs and lows reached and the price and volume trends	Company ownership – the existence of private majority shareholders, either local or foreign, other shareholders – investment funds, etc.
The general stock market trend; a general upward trend also entails an increase in the individual price of the most sought after shares.	The development of the economic and financial environment and of the economic sector in which the issuing company operates

Source: Adapted from Stock Analysis (2010).

observe accounting standards can be of much assistance in conducting accurate forecasts, and financial analysts are often equally off course in their predictions, despite all the available accounting, financial and monetary information and indicators they may employ. Therefore, additional information is needed when attempting to forecast the stock market trends on each specific market and an analysis of the non-financial and informal pieces of information must also be conducted (Becalli, 2005). Clearly, the purpose is to provide analysts with prognoses that will subsequently be largely confirmed by the market to the benefit of those that operate on the secondary market. A study that has been conducted in Romania by Deloitte Touche Tohmatsu and Economist Intelligence Unit (Nicolae, 2007) among company managers in the first year after the country became a member of the European Union (EU), reveals that “the great majority of the companies participating in the study agree that the market itself progressively reveals the nonfinancial performance measurement factors, and most of the respondents found it difficult to identify these factors. If more than 87% of the respondents describe their financial performance measurement methods as *good*, only 29% of the participants can say the same about their nonfinancial performance measurement methods”. The main nonfinancial performance factors identified in the course of this study were: increasing reputational risk, increasing customer influence, increasing competition on a global level, accelerating innovation, and a detailed analysis of the nonfinancial performance factors conducted by the media, etc. The conclusions of the study also mention the idea that the role of nonfinancial parameters is becoming more prominent, as an increasing number of companies have started to include nonfinancial information in their annual financial statements and over one-third of the research respondents (37%) believe that “the performance of the company is more likely influenced by its intangibles than by its tangible assets”. We can further indicate that, from a legal perspective, the disclosure of nonfinancial information by companies in the EU has been the subject of the amended version of the Fourth Directive on the annual accounts of companies with limited liability (EC, no. 78/660) (EC, 2010). Thus, as of 2005, the annual reports of companies include information [key performance indicators – (KPI)] related to environmental and employee issues that are relevant for a fair review of a company’s development, performance and financial position. Even though the European Commission argues that the “disclosure” of nonfinancial information is very important in the current economic crisis circumstances and in light of the challenges brought about by sustainable development, this provision is not critical for small and medium-sized enterprises (SMEs). This relief from publishing nonfinancial information is meant to alleviate the administrative burden of these companies. On the other hand, another aim of the EU is to relieve the bureaucracy involved in the financial reporting of those companies whose chattels are allowed to be traded on a regulated market. However, things can get very compli-cated during periods of prolonged crisis. The information included in the analyses performed with the purpose of identifying a future stock market trend will only configure a very insubstantial image and, thus, the instruments to be used by the customers who wish to buy or sell stock must be further refined. Besides, the quoted authors state that financial authorities and companies should employ certain mechanisms for providing adequate information, with the very purpose of encouraging the use of their nonfinancial components (that would also encompass informal events) and to eventually improve the quality of their forecasts to the benefit of investors.

Conclusion

Multiple aspects that are triggered by numerous variables employed in the real or the monetary sector of the economy, economic dynamics, business cycles, etc, all raise serious difficulties and deter the forecasting of stock market prices. The subject concerning the use of nonfinancial information in this respect has allowed us to conclude that this type of information further supplements the financial information without single-handedly contributing to the development of very accurate forecasts. From an academic standpoint, our topic can be considered as "open" and, as scientists will further continue to develop studies based on market testing and thus reveal nonfinancial and informal data, better and more refined instruments will be available to stock market investors who are contemplating the decision to buy or sell.

REFERENCES

Becalli E (2005). Non financial information and informal disclosure in analysts' forecasts. Università degli Studi di Macerata, http://www.ricercaitaliana.it/prin/dettaglio_prin_en-2005134418.htm/.

Becalli E, Casu B, Girardone C (2006). "Efficiency and stock performance in European banking". J. Bus. Finan. Account. 33:245-262.

EC, European Commison: Directive 78/660 (2010). "Propuneri de modificare a Celei de-a IV-a Directive privind conturile anuale ale unor anumite tipuri de companii", http://ec.europa.eu/internal_market/consultations/2010/nonfinancial_reporting_en.htm/.

Esterwood J, Nutt S (1999). "Inefficiency in analysts' earnings forecasts: systematic misreaction or systematic optimism." J. Finan. 54:1777-1797.

Ignat I, Clipa N, Pohoaţă I, Luţac Gh (1998). Economie politică. Economic Publishing. Bucharest. p 520.

Lămătic GH, Bostan I (1999). Balance and growth, vectors of the economic dynamics. Economic Publishing, Bucharest. pp. 20-37.

Nicolae A (2007). "Neinformaţi: Ce nu cunosc directorii şi consiliile directoare despre starea generală a afacerilor pe care le conduc", http://www.zf.ro/profesii/ce-nu-stiu-managerii-despre-companiile-pe-care-le-conduc-3031239/.

Poulon F (1996). Économie générale. Dunod, Paris. p 114.

Stock Analysis (2010). http://www.piata-de-capital.ro/analizaactiunilor.php/.