Impact of Capital Structure on Stock Returns
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Abstract—Today the relationship between components of the capital structure and between capital structure and shareholder wealth has been considered, by accounting researchers, because one of the basic financial principles generally accepted by the financial authorities is that the intrinsic value of an item of property is equal to the present value of expected cash flows from the asset during its useful life. In this paper, we intend to investigate the relationship between capital structure and return on equity. The method of the present research is deductive - inductive, meaning, theoretical framework and research background; updates will come from the library of studies, articles and websites, a priori, and data collection. To confirm or reject hypotheses used deductive reasoning.

Index Terms—Stock Returns, Capital Structure, Shareholder Wealth, Miller Model.

1 INTRODUCTION
ONE of the most complex problems that can be swiped by financial managers today is the relationship between the components of the capital structure, and it is a mixture of bonds and equities, finance, and stock prices company. Decisions regarding capital structure are one of the most challenging and the most difficult issues facing companies. However, the most crucial decision about its survival, the way that companies, through which it invests, say, the capital structure. A company can invest in common or preferred shares were acquired by or through debt. Relationship between capital structure and shareholder wealth, which has long been considered, by accounting researchers. Despite the financial structure of corporate debt, on the one hand, due to tax leads to an increase in accounting earnings, and consequently increase the return on equity, and on the other hand, due to interest costs, and the probability of debt settlement, reached in, will lead to increased financial risk, and thus increase the price of the stock market, which consequently also reduced returns. than this, because one of the tasks for financial managers, is increase shareholder wealth, one of the concerns of managers is to determine the combined company’s capital structure. As a result, executives are looking for information, to determine the relationship between the components of the capital structure, the shareholder wealth (Faulkender, 2012).

2 RESEARCH QUESTION
Considering that the main objective of this study is to examine the impact of capital structure on stock returns, the following question is designed to:
Is there a significant relationship between capital structure and return on equity ?.

3 RESEARCH HYPOTHESES
Based on the questions mentioned in the previous section, the hypothesis of the present study was designed as follows:

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Relationship exists between the capital and the efficiency of the company.
Risk has a significant impact on stock returns
There was a significant positive relationship between the ratio of debt to equity stock returns.
Market share, and revenue maximization, as well as market share as a measure of shareholder wealth maximization.

4 RESEARCH METHODOLOGY
The method of the present research is deductive - inductive, meaning, theoretical framework and research background, updates will come from the library of studies, articles and websites, a priori, and data collection. To confirm or reject hypotheses, used deductive reasoning.

5 THE THEORY OF CAPITAL STRUCTURE
Miller pattern - Modigliani, without tax
Modern theory of capital structure, proposed in 1958 and published an article by Miller and Modigliani. The two researchers, proved that, despite restrictive set of assumptions, and the costs of forgoing tax treaty policy, finance company, is ineffective, the current market value of the company.
So what was the outcome of this study indicate that it is, the way finance companies, no matter, and can not alter the value of the company, unless, affect the probability distribution of cash flows of the company.

Miller pattern - Modigliani, the effect of corporate tax
Suppose unconnected Miller and Modigliani, suggests that financing policies only when it affects the value of the company, is creating a shift in the company’s cash flow, cash flow distribution, may be due to, be affected by the policies, Financing selected: there are important tax consequences of the existence of the contract and representation expenses, or any other interdependence between financial policy and investment policy choices. Miller and Modigliani, then released a paper (1963), in which the company assumes no taxes, largely moderated. Tax law firms, this allows that to use as a low cost. As a result, the difference in the way causing the lever to bring financial benefits. Miller and Modigliani, argued that, because the calculation of corporate income tax, interest payments are
low, however, in the context of capital, higher debt, lower debt, corporate tax and after-tax cash flow is increased, and the market value of the company increases. Thus the situation arises that requires 100% of funds needed to provide the loan (Gomes, 2010).

Miller model

Several years later, Miller (1977), the research continued, without the cooperation of Modigliani, and personal taxes in order to be. Miller argues that the tax benefits of debt, the effect is too large, the tax on corporate profits, is separated from individual income taxes. He reminds everyone to use the proceeds of the bonds, which are subject to personal income tax rates, and this leads to the loss of the tax benefits of debt. As a result, investors, paying taxes due in such circumstances, have a tendency to accept a lower return on equity (before tax), compared with pre-tax return on bonds.

Criticisms of the model and the model of Miller and Modigliani Miller

Conclusions derived from the model of Miller and Miller and Modigliani model, are based on the same basic assumptions. But academics and financial executives, both of them are reliable, have the following question. The fact that someone does not believe that they are reliable, accurate manner. Results from Miller and Modigliani, gain on their hypothesis, is corroborated by the lack of attention to the issues which have led, to provide complementary patterns.

6 PATTERN OF TRADE

The effect of bankruptcy costs: Crause and Lintznberegr (1973) argue that corporate tax breaks are neutralized due to an increase in expected bankruptcy costs, and believe, the point at which additional leverage, the expected bankruptcy costs are so high that takes exactly the same. Additional debt is tax savings, is defined as the point of optimal capital structure.

Bankruptcy costs, depends on three things: the probability of bankruptcy costs, companies are forced to endure during the financial crisis, and the reverse effect, the phenomenon of failure potentially could affect the company's current operations. For example, firms, or firms with more uncertain income, its value is dependent on the exercise of the growth opportunity, an obligation, to make fewer loans.

Representation expenses: there are conflicts of interest between shareholders, bondholders, and managers, the decisions, the welfare of the group increases, often reduces the welfare of others.

Probably some of this conflict is concerned, the Director should have plenty of cash, managers, there are restrictions on the entry of free cash flows, such as an obligation to pay interest and principal on loans, not money spend it, in vain. We call this phenomenon "depositing shackle" on the free cash flows. More loans, which forced the manager, would more accurately than equity funds, but even companies that have excellent management, are bankrupt, if events occur beyond their control, therefore, too much debt can function as as a double-edged sword.

The inclusion of the costs of the financial crisis, and the cost of representation, the model of Miller and Modigliani, based on corporation tax, or the Miller model, leads to the new model, called the pattern of trade. In this model, the cost and benefits of the loan would cancel each other out; As a result, an optimal structure arise, and that is the range is from 0 to 100 percent.

7 ASYMMETRIC INFORMATION THEORY OR THE THEORY OF WARNING

One of the assumptions of Miller and Modigliani, is that managers and investors about the future of the company have information like (symmetric information), but quite often, managers have more information. This phenomenon is known as asymmetric information, which puts a significant impact on the capital structure. In this theory, it is explicitly stated that, to finance, there is "power hierarchy ".

A company that has a great future, prefers, capital requirements, to finance, through loans, meanwhile, the company does not foresee a good future, prefers, capital requirements, provide by the issue of equity.

Warning theory, leads to the conclusion that, the potential loan companies should keep to themselves, to the favorable conditions (for financing), to issue bonds, and not that, inevitably, to the common stock issued, and the terms are unfavorable.

8 IN PRACTICE, THE OPTIMAL STRUCTURE

The theory of capital structure, suggests that each firm has an optimal capital structure, a structure that could value the company, to deliver the maximum, and the cost of capital, to the lowest possible amount of transparency. But decisions on capital structure, there are a few Msalh' antithesis, and how to determine a company's capital structure, it is accurate, this theory can not be used.

Because corporations can not be determined, the optimal capital structure accurately, managers are compelled, when a little analysis, use of personal judgments. This analysis is based on personal judgment, is required to apply to several factors, the most important of them are mentioned below:

1) Conservative Leaders
2) donors and organizations whose vision, determination, they ace the company's reputation.
3) Loan storage capacity and financial flexibility
4) Business risk.
5) Structure of Assets
6) The rate of growth
7) The profitability
8) Tax
9) Market Conditions
10) Miller's interpretation of the theory of capital structure

After all, Nobel Prize in Economics was awarded to Merton Miller, for his work, Miller and Modigliani have the financial
knowledge to development staff, local television network in Chicago, did an interview with him, and asked him to explain theory. Miller - the Modigliani briefly, and simply for the viewers.

The most important thing that should be pointed out, was that, in an ideal world economy, the total market value of all securities of the company is determined according to strength, their profitability and risk -related assets, and should be independent of the composition of the portfolio the debt and equity, which have been used to finance it. For example, the added risk to shareholders, due to the release of more debt, leads to an increase in the expected rate of return, the right to an extent that is sufficient to negate the benefits of using debt with lower cost.(George,2010).

Provide such an explanation, in short, it was difficult for the public, instead, to use a metaphor Miller Companies Consider, as a large tub full of milk, the milk produced by live stock is can sell it directly, or it can take the cream, and sell, the price is much higher than the price of milk (Here, Buy cream in comparison, the same company that bonds with lower yields and thus higher prices sell.), but it remains for the farmer, is skim milk that the milk is very low, and the price is lower than the original milk sold. Skim milk, such as equity, leverage is added to it. Modigliani Miller theorem, says that if you separate the cream from the milk is free of charge, the total sales of cream, plus skim milk is equal, total sales of milk directly.

What is the purpose of simple and complex structure of capital ?

A simple capital structure:

Simple structure, capital includes common stock, no amount of care, potentially saving the document. The company, its capital structure, and has reduced potential securities representing less than 3 % Earnings per ordinary share, this simple structure is considered.

Saving bonds, though not its common stock, the holders of the bonds, based on the conversion of ordinary shares will be able to attend. Examples of these are: convertible bonds, convertible preferred stock, stock options tab, and tab options.

9 COMPLEX CAPITAL STRUCTURE

If the company documents which could reduce earnings per share, capital structure of the company is called complex. And earnings per share, as two -fold: the basic earnings per share and earnings per share, to be totally diminished. Iranian accounting standards, as long as the company's capital structure, it is difficult to calculate basic earnings per share declined on profit and loss is necessary. The company has a complex structure which securities are convertible into ordinary shares, or issued, the purchase of common stock. Hence, cumulative preferred stock securities are not a complicated structure.

10 DETERMINING THE CAPITAL STRUCTURE

Decisions relating to the capital structure of the company, has two aspects: First, the amount of capital required; Second, the combination of funding sources. It is assumed that the company is fully aware of the amount of capital required. In such a case, the question then becomes, to fund, from which resources should be used, ie, the number of bonds issued, and how much it will supply Publishing ordinary shares.

Process that leads to the final decision is called to determine the capital structure.

11 ASSESSMENT PRACTICES TO RAISE CAPITAL ON STOCK RETURNS

Today, public participation will be in production by capital markets, particularly the stock exchange, which is considered as an important approach in order to achieve the economic development of countries. Profitability of firms that are in good condition, are trying to develop their activities, and spend all your money in a way to increase sales and earn more profit. Thus, financing of new and acquired funding for liquidity in the capital markets would be. Investments in securities and common methods of public investment and general government support and popular culture has made the removal of the capital markets community structure, is not possible.

Accordingly, with confidence and hope more people participate on a variety of securities. Usually, most companies with limited capital, started its activities, and the acceptance in Tehran Stock Exchange for developing and implementing development projects require liquidity. In this case, the Company due to the limited funds of the banking system and complex process of obtaining a permit bonds, issued new shares to take action. With regard to listed companies in vans securities, investors have a tendency to increase in frequency as well as various ways to raise capital, the need was identified to evaluate ways to raise capital on the stock returns,and the study should be done. Other economic units also require financial resources are a variety of reasons, but what is most important individual units for investors and seems to increase shareholder wealth.

It should be noted that the capital increase, one of the best ways to earn money in order to develop activities and future plans in terms of both capital cost and easy to do so. But, after the capital increase, the shareholders of mental decline in their stock prices decline as its wealth, and the responsible managers know this. In contrast to the visionary leaders always emphasized in its decision and a temporary reduction in the price of stocks, shares and not sell it insist on maintaining(Korteweg,2010).

Recent years witnessed an increasing trend in the increase of capital by firms listed in Tehran stock exchange are. However, since any increase in the capital stock price sharply decreases, both the investors and the company were facing:

1 - if the company can use the funds obtained in such a way to optimize and increase the profitability of the company, after a sharp drop in share prices, the trend will be, or may be, within a short time , exceeds the cost of the capital increase.

2 - If the company fails, the ideal way to use the funds, share price trend traces, and even the possibility of going bankrupt.

According to the above confusion, the direct effects of the
capital increase, the shareholders will have effect. Therefore, if the increased investment will lead to a reduction of shareholders, shareholders desire to invest in the stock market declines. As a result, lead to capital flight from the stock market and investments in other places, and finally taking stock of the boom. Finally, due to the booming stock market, investors will not invest in appropriate activities, this practice leads to damage to the economy from a macro perspective.

12 Exchange in Terms of Macroeconomic

From a macroeconomic perspective, the Stock Exchange, after the pause of four 1 - to mobilize funds through the sale of bonds and stocks one of the most reliable ways of collecting funds for investment. Units of production and trade, instead of borrowing from the banking system can, under the criteria by selling shares or bonds on the Stock Exchange, to meet their financial needs.

2 - Split large property, by selling their shares in the stock market from the perspective of macroeconomic goals more equitable distribution of income, and the sense of participation in the general population in productive activity and trade is helpful. Ownership of a large firm, by one person or a few people who are able to finance it, are not comparable with the benefits of "mass property". Furthermore, the possibility of great resources investment bank borrowing is possible, however, to publish and sell shares to the public, is preferable to financing.

3 - Stock Exchange is a perfect market. Fully competitive markets, such characteristics are the most important characteristic is congruent with the product, it is important that the Stock Exchange. The number of buyers and sellers is generally high, and finally the third characteristic of each market, it is completely free to enter and exit the stock collectors. In other words, anyone who is having securities listed on the stock, and it may be referred to the exchange offer.

4 - There area a perfect market, the Stock Exchange, the optimal allocation of resources allows. Stock Exchange, the price of the shares as a means of competing economic forces, and weak punish managers and administrators encourage innovative and powerful. Not affected by the stock of a company to meet its financial needs and a Profitable company is able to facilitate the sale of its shares, to be financed.

13 Causes and Sources of Corporate Financing

Theorists have developed three main models on offer of new shares. In these models it is assumed that, firstly, corporate managers act in the interests of existing shareholders. Secondly, the supply of new equity capital market only if it contains information which, in contrast to investment managers, have better information about the company's future.

Different companies apply for financing through new equity offering that, it can be presented in three main model as follows: (1) financing to repay existing debt (capital structure models)

2 - Financing for new investment
3 - Financing cash shortages.

Liabilities and shareholders' equity represents the financial resources to acquire the assets of the company uses.

Some of these funds include: accounts payable, payroll taxes and workers, all kinds of loans and debt securities, preferred stock, common stock, reserves and retained earnings (Flannery, 2013).

In general, companies are financed in two ways:
1 - The financial resources of the company:
1-1 - funds derived from the sale of fixed assets
2-1 - funds from operations
3-1 - Retained Earnings.
2 - Foreign funding of corporation:
1-2 - loan
2-2 - Issuing Bonds
3-2 - Issuance of preferred stock
4-2 - Issuance of common stock
5-2 - Issuance of common stock options.

14 Return on Equity and its Criteria

According to agency theory, and given the propensity of investors, the management should, in order to maximize firm value. This concept will be realized that management decisions in the field of investment, financing and dividend decisions to be optimized (D'Mello, 2010).

Various criteria such as maximization of profit received by shareholders of utility services, to maximize market share and market share as well as revenue maximization, shareholder wealth maximization criterion is considered.

Profit maximization as a criterion
Most of the common shareholders of the target company's profits and optimal as it maximizes their wealth maximization treat. Some people focus on the profitability of the company, the company's share price on the basis of the evaluation criteria have been:

Average earnings over the past three years, the company's share price, expected rate of return.

15 Maximization of Earnings Per Share

Part of the special dividend, the aggregate number of shares, the share of income is reached. Earnings per share in the profits of an accounting period in which the holder is entitled to a share. It should be noted that the concept of the definition of "dividend" is not wrong.

The dividend is the amount that actually owns the shares awarded, but not necessarily the holder of a share is not paid. The calculation of earnings per share, the first part of the income from preferred stock and common stock and preferred to be deducted and the remaining income of ordinary shares, to be divided.

16 The Maximum Stock Price

The maximum stock price, which is more aimed at investors looking to profit from buying and selling stock. That they are a short-term goal, which will only increase the price of shares purchased, take profit and long-term cash and equity income no at-
17 CONCLUSIONS

One of the basic financial principles generally accepted by the financial authorities is that the intrinsic value of an item of property is equal to the present value of expected cash flows from the asset during its useful life. This mode is also true, i.e., if shareholders feel that doing a particular event or a particular decision, which is conducive to the interests of their future risk is encountered, it reduced the price of its shares, and consequently its value is reduced. Accordingly, one of the events that shareholders always look at it look special, extraordinary general assembly and decisions in it. Extraordinary general meetings may be taking decisions, such as approving the financial statements for the previous year, or a change of board members or substitute members, investigators determined the company's dividend, capital gain or any other important decisions that each of these decisions according to the time available to a species-specific, have been interpreted by the shareholders, and therefore the stock price, which has undergone several changes. So far, each of these aspects of decisions taken at general meetings and its effects on prices and stock return, many researches have been done, and it also has different results. In the present study, we decided on ways to increase the return on equity capital after the capital increase in the extraordinary assembly, we evaluated.

Capital increase from reserves, in the form of bonus shares is that it can be examined in the context of dividend policy. Companies' variety of reasons and motives, make equity awards. In this case, what about the stock award is important is that this kind of increase in total equity and total assets as a result of the increase does not occur.

Moreover, the reasons and motives of the company, capital increase is different from the reserves. This type of capital increase, such purposes including corporate development, purchasing new or replacement assets, current assets, education, resources and education to enter foreign markets to pay the company's debt, working capital, the company needed a is high, and if the purpose of financing the company's debt or pay dividends to shareholders must, in the long term, this will cause the company's stock value decreased with the primary objective of management is shareholder wealth maximization, in contrast, it is. Accordingly, and with the assumption that the capital increase of receivables and brought more cash to expand operations, shareholders in an efficient market willing to pay more for the shares of these companies, and consequently announcements capital increase through it, the price of the stock has increased more than the increase in capital reserves. Increase capital through retained earnings decreased by existing shareholders will be payable. In other words, the availability of retained earnings depends not only on profits acquired by the company, but also relates to the policy of paying dividends.

In this study, statistical tests were carried out according to the data, it can be concluded that the best way to increase the efficiency of capital increase shares, the subscription model. Therefore, it is said, using the advantages of each method leads to cover other disadvantages, and a complementary set of these methods leads to increased return on equity.

REFERENCES