

Ways to ensure the stability of companies' share prices

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Abstract: The article studies the scientific, theoretical and methodological aspects of the stability of the company's share prices. The factors affecting the stability of the share prices of joint-stock companies are analyzed. The financial ratios and share price of Summit Materials Inc. are evaluated. Also, negative factors affecting the stability of the companies' share prices are presented and proposals are developed to eliminate them.

Key words: stock, stock market, stability, dividend, investment, reliability, income.



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Introduction

Due to the various changes taking place in the world economy, at the current stage of its development, the direct impact of various factors on the financial results of companies is increasing. Such factors include economic and political crises, various social situations, changes in economic laws and uncertainties. In such changing conditions, ensuring the financial stability of the share prices of various companies participating in the stock market as issuers and the survival of the company is the key to its stability in the market. At the same time, the financial stability of the share prices of companies on the stock exchange is affected not only by external factors, but also by the company's operating results, its effective response to changes in the internal and external environment. The problem is exacerbated by inflation and global uncertainty, and experts predict that a recession may occur. Professor Laura Veldkamp of Columbia University put forward the following opinion about these changes. "The truth is that no one knows what the market will do in the long term (closing part of the economy for a long time) because we don't have the experience to know that in advance. Where there is a lot of speculation and uncertainty, it means that people's beliefs can change a lot. As a result, stock prices emerge with these beliefs"¹.

In order to ensure the stability of the price of shares of companies on the stock exchange, to effectively form the state of their financial resources, it is necessary to effectively use funds, freely manage them, and thus ensure the stability of production and sales, taking into account the costs of maintenance, expansion and repair. However, regulating these limits for companies is a very difficult task.

In our republic, the issue of ensuring the stability of the price of shares of enterprises and organizations on the stock market is also an important problem. For this, it is necessary, first of all, to consider the issue of privatization of large enterprises and organizations. In this regard, "...gradual liberalization of the movement of capital in our country and privatization of large enterprises and shares (shares) in them, including through the stock exchange" is recognized as one of the important issues².

In order to maintain the stability of the stock prices of companies on the stock exchange through privatization, it is necessary to study the impact of various macroeconomic and microeconomic factors affecting them. Therefore, it is necessary to assess the level of factors affecting the stability of the stock prices of companies on the stock exchange based on precise econometric analyses. It is precisely in order to find solutions to the above problems that various studies are currently being conducted in international practice.

Literature review on the topic

A number of studies have been conducted to ensure the stability of stock prices of joint-stock companies. The studies have different approaches in terms of the highest factors affecting the stability of stock prices.

¹ Vega, Nicolas (2022-06-14). "Stocks have officially entered bear market territory – here's what that means and what you should be doing." CNBC. Retrieved 2022-06-29.

² Development Strategy of New Uzbekistan for 2022-2026. National Legal Information Center "Adolat", -T.:2022 -152 p.

In foreign practice, many studies have been conducted on the issue of ensuring the stability of stock prices of companies in the stock market. These studies have highlighted the need to assess the factors affecting stock prices mainly in relation to macroeconomic indicators. At the same time, some studies have put forward proposals to assess the factors affecting stock prices based on microeconomic indicators.

Benakovic and Posedel³ (2010), Chen & Jin⁴ (2004) and Chen, Roll & Ross⁵ (1986) according to their approach, the interest rate is the factor with the highest impact on the stability of stock prices. Also, Tursoy⁶ (2008), Jecheche (2008) and Kisman⁷ (2015) They have cited GDP as the factor with the highest impact on stock price stability.

Economists Paavola, J., & Adger, W. N.⁸ (2006), Herwany, A., Omar, M. A., Meera, A. K., & Febrian, E.⁹ (2014), Iqbal and other's¹⁰ (2012) and Tandiontong and others (2015)¹¹ according to the research, inflation and exchange rates are the factors with the highest impact on stock price stability.

So, in the studies conducted, the influencing factors are associated with different approaches, which differ in their degree of influence and correlation indicators. We know that the price of securities is determined in the market where the offer of the seller meets the demand of the buyer. But have you ever thought about what drives the stock market, that is, what factors affect the price of shares? Unfortunately, there is no pure equation that tells you exactly what the price of a share will be. However, we know a few things about the forces that move a share up or down. These forces are divided into three categories: fundamental factors, technical factors, and market sentiment.¹²

Stock prices are determined by a variety of factors, but ultimately, the price at any given time is determined by the supply and demand in the market at that time. Fundamental factors drive stock prices based on a company's earnings, profitability, and the ability to produce and sell products and services. Technical factors are related to the history of stock prices in the market, and are related to factors such as chart patterns, momentum, and the behavior of traders and investors. In an efficient market, stock prices are primarily determined by fundamentals, which are a combination of two things: the earnings basis, such as earnings per share (EPS) and the price-to-earnings ratio. A common stockholder is entitled to receive earnings, and EPS is the return on the owner's investment. When you buy a stock, you are buying a proportionate share of the future earnings stream. This is why it is often valued: it is the price you are willing to pay for the future earnings stream.

Some of this profit can be distributed as dividends, while the rest is retained by the company (on your behalf) for reinvestment. We can think of future income streams as a function of current earnings and the expected growth of that earnings base.

If only fundamental factors determined the price of a stock, things would be simpler. Technical factors are the sum of external conditions that change the supply and demand for a company's shares. Some of them indirectly affect the fundamentals. For example, economic growth indirectly contributes to earnings growth. Technical factors include: inflation, economic potential of the market and competitors, random transactions, demographics, trends, liquidity, and market news.

Market sentiment refers to the psychology of individual and collective market participants. This is perhaps the most boring category. Market sentiment is often subjective, biased, and stubborn. For example, one can be very bullish on a stock's future growth prospects and the future may confirm predictions, but at the same time, the market may be short-sighted on a piece of news that artificially drives the stock price higher. Sometimes, one can wait a long time, hoping that other investors will notice the fundamentals. Fundamental investors can agree with the technical forces on the following well-known argument: Technical factors and market sentiment often have a big impact in the short term, but fundamentals determine the price of a stock in the long term. At the same time, we can expect more interesting developments in behavioral finance, especially since traditional financial theories cannot explain everything that happens in the market¹³.

³ Benaković, D., & Posedel, P. (2010). Do macroeconomic factors matter for stock returns? Evidence from estimating a multifactor model on the Croatian market. *Business Systems Research*, Vol. 1 No. 1-2, pp. 39-46.

⁴ Chen, C., & Jin, Y. (2004). A Robust Test on the Multifactor Pricing Model. *Investment Management and Financial Innovations*. 1(2). January 2004.

⁵ Chen, N. F., Roll, R., & Ross, S. A. (1986). Economic forces and the stock market. *Journal of business*, pp. 383-403.

⁶ Tursoy, T., Gunsul, N., & Rjoub, H. (2008). Macroeconomic factors, the APT and the Istanbul stock market. *International Research Journal of Finance and Economics*, Vol. 22, pp. 49-57.

⁷ Kisman, Z. (2015). Validity of Capital Asset Pricing Model (CAPM) and Arbitrage Pricing Theory (APT) in Predicting the Return of Stock in Indonesia Stock Exchange 2008-2010. *American Journal of Economics, Finance and Management*, Vol. 1 No. 3, pp. 184-189.

⁸ Paavola, J., & Adger, W. N. (2006). Fair adaptation to climate change. *Ecological Economics*, 56, 594-609.

⁹ Herwany, A., Omar, M. A., Meera, A. K., & Febrian, E. (2014). Asset Pricing and Volatility Modeling: The Case of Indonesia Stock Market. Available at SSRN 2616172.

¹⁰ Iqbal, et al. (2012) Relationship between Exports and Economic Growth of Pakistan. *European Journal of Social Sciences*, 32, 453-460.

¹¹ Tandiontong, M. Mathius & Rusdin. (2015). Komparasi Capital Asset Pricing Model Versus Arbitrage Pricing Theory atas Volatilitas Return Saham. *Jurnal Keuangan & Perbankan*. Vol. 19 No. 2. pp. 181-199.

¹² <https://www.investopedia.com/articles/basics/04/100804.asp>

¹³ <https://www.investopedia.com/articles/basics/04/100804.asp>

The factors listed above are the major factors that affect the overall nature of stock prices. However, there are many other factors that determine how investors perceive a company's future prospects, which in turn affect the price they are willing to pay for the stock. If an investor is willing to buy shares at the price that another investor is willing to sell, a trade occurs, and the price at which the trade is made becomes the new market price, which is updated each time the stock changes.

So, at the most fundamental level, the price of a stock is determined by the forces of supply and demand. If there are more buyers than sellers in the market for a particular stock, its stock price will tend to rise. Conversely, if there are more sellers than buyers in the market for a particular stock, its stock price will tend to fall. Some of these factors include: the state of the economy, industry conditions, and the company's profitability¹⁴.

In many studies, the factors affecting the stock prices of companies have been carried out based on different approaches in foreign practice. In particular, factor models used to analyze economic and financial time series are called dynamic factor models (DFM). The main assumption in these models is that several general trends/factors provide a clear description of the state of the economy. The basis of the dynamic factor model is that several latent dynamic factors drive the joint movement of a vector of time series variables, which is also affected by a vector of idiosyncratic distortions with a mean of zero¹⁵. These specific distortions are associated with measurement error and special features that are unique to each individual. DFM models are used to estimate the unobserved weekly and/or monthly evolution of the growth factor, which is reflected in the observed weekly and monthly economic time characteristics of GDP, such as employment and retail spending.

Analysis and results

We analyze the stability of the stock prices of some companies operating in the countries. Summit Materials Inc., a large construction materials company operating in the United States, is a manufacturer of building materials. The company primarily supplies aggregates, cement, commercial concrete and asphalt to the western United States and Canada. The company produces and distributes cement, concrete and aggregates, drywall, recycled cardboard and oil and gas proppants at more than 75 locations throughout the United States. The company's cement, concrete and aggregates segments are involved in the building products sector, and the drywall and recycled cardboard segments are involved in the building materials sector. Summit Materials Inc. produces and distributes concrete and aggregates for use in the construction and repair of highways, as well as in residential and commercial buildings. Summit Materials Inc. operates aggregate quarries and concrete plants in Texas, Northern California, Kansas and Missouri. It aims to build a low-cost supply chain for white sand in the Northern region for the energy sector¹⁶.

Table 1

Financial ratios of Summit Materials Inc.¹⁷

№	Indicators	2016	2017	2018	2019	2020	2021	2022
1.	Current liquidity ratio	2,2029	2,0214	3,1347	2,2694	2,6605	2,7682	2,8136
2.	Long-term debt/equity	0,6239	0,6378	0,5874	0,5739	0,5616	0,5393	0,466
3.	Net profit margin	1,9352	2,2621	6,304	1,6131	2,6581	5,9151	6,3151
4.	Return on equity (ROE)	-0,1212	5,3632	9,8903	2,7064	4,2306	8,7386	8,462
5.	Return on assets (ROA)	-0,0389	1,6583	3,321	0,9418	1,5027	3,2785	3,6395
6.	Return on Investment (ROI)	-0,2456	1,8426	4,0803	1,1535	1,8546	4,0255	4,5188
7.	Book value of shares	6,2702	8,806	11,331	11,8191	12,5376	13,8931	15,1024

¹⁴ <https://secure.fundsupermart.com/fsm/article/view/12143/factors-affecting-stock-prices>

¹⁵ Джеймс Сток, Марк Уотсон. Введение в эконометрику/ М.: Дело (РАНХиГС), 2015. — 864 с. — (Академический учебник). — ISBN 978-5-7749-0865-3.

¹⁶ <https://www.macrotrends.net/stocks/stock-screener>

¹⁷ <https://www.macrotrends.net/stocks/charts/SUM/summit-materials/financial-statements>

8.	Operating cash flow per share	1,0612	2,3376	-0,7748	-0,7911	1,1094	0,5649	-0,5101
9.	Free cash flow per share	0,2417	1,2608	-0,4688	-0,9434	1,4879	0,5288	-0,7686

The company's current ratio was positive, its net profit margin also increased in the last two years, and its return on assets was positive in all but 2016. The company had only two negative ratios, operating cash flow per share, which was -0.5101 at the beginning of 2022, and free cash flow per share, which was -0.7686 at the beginning of 2022.

The company's share price volatility in the stock market was as follows:



Figure 1. Summit Materials Inc. annual stock price data ¹⁸

Since 2023, Summit Materials Inc.'s last closing price was 30.72 as of January 06, 2023. The highest closing price of the stock was 40.52 on November 16, 2021. Summit Materials Inc.'s 52-week high is 39.10, which is 27.3% above the current stock price. Summit Materials Inc.'s 52-week low is 21.62, which is 29.6% below the current stock price. The company's 52-week average stock price is 28.32.

Table 2

Summit Materials Inc. - Annual Stock Price Data ¹⁹

Years	Average share price	Price opening	The best price of the year	Lowest price of the year	Year-end price	Change in one year
2022	28,5485	39,2920	39,7542	22,2321	28,3900	-28,07%
2021	31,5557	20,0787	40,5211	20,0787	39,4690	99,90%
2020	17,0810	23,5103	24,1790	8,3382	19,7443	-15,98%
2019	18,5402	12,3795	24,5329	12,3795	23,5005	92,74%
2018	23,5302	31,3963	33,0973	11,3078	12,1927	-60,56%
2017	27,0071	23,4572	31,8879	22,4100	30,9145	34,01%

The company's share price fell from 22.3992 on February 4, 2020 to 8.6196 on March 20 of this year. After that, the company's share price gradually increased. On June 24, 2021, it was equal to 35.5556, and on September 15, 2021, it decreased to 31.1996, and the share price reached a peak of 39.8132 on November 17, 2021. After that, the company's share price was equal

¹⁸ <https://www.macrotrends.net/stocks/charts/SUM/summit-materials/stock-price-history>

¹⁹ <https://www.macrotrends.net/stocks/charts/RETO/reto-eco-solutions/stock-price-history>

to 29.3500 as of January 5, 2023. In terms of changes, the largest negative change was -60.56% in 2018, while the largest positive change was 99.90% in 2021.

All the company's stock-related indicators show positive indicators in the last two years. Accordingly, the company's revenue has increased since 2016. However, at the same time, the number of shares issued by the company was 28 million more in early 2022 than in 2016. This also led to an increase in the company's revenue.

As part of technical advances, various types of cements have been introduced in various technological experimental laboratories of cement giants around the world. They are created in large quantities to meet the needs of the industry for the performance of various mechanical and chemical stresses. They are developed within the framework of the main environmental needs for the reuse and recycling of industrial waste, and aim to add new qualities of durability and strength, among other things (nanocement, green cement), in accordance with the categories of industrial use. The environmental issue has been a key determinant in all technological and research advances within the framework of the requirements for the formation of cement production. Reducing pollution is a legal obligation, which also contributes to waste reduction and industrial sustainability.

Conclusion and suggestions

1. By using green cement production technology in enterprises, it is possible to reduce costs and further develop production.

2. In order to further improve the production activities of enterprises, it is necessary to further increase the transparency of their economic indicators for investors, customers and other users. For this, it is necessary to create an investment website, such as the largest cement producing foreign countries, where all information is entered by stock market participants.

3. Enterprises should constantly increase the return on equity (ROE). The higher the value of the coefficient, the higher the profitability of its investments.

4. It is important for enterprises to constantly increase the amount of income for common shares. The higher the income of enterprises, the higher the price investors set for their shares.

5. Cement companies should ensure transparency in publishing all indicators necessary for evaluating shares in order to attract investors through the stock exchange, that is, through changes in the price of their shares.

6. It is advisable to further improve the mechanism for the free sale of shares of enterprises in the secondary market. This will increase the ability of shareholders of enterprises to accurately calculate the dividend rate.

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