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The Effect of Financial Reporting Quality (FRQ) on Investors' Sentiments

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ABSTRACT

Financial reporting quality (FRQ), aimed at reducing information asymmetry between investors, is considered a key feature of accounting information. This study investigates the reduction of discretionary accruals in net profit, which serves as an indicator of higher-quality accounting information. Additionally, investors' sentiments, due to their sensitivity to varying degrees of accounting quality information, lead to different reactions in the capital market. These sentiments increase investors' risk exposure because they are difficult to control. This study aims to reduce the influence of investors' sentimental decisions driven by the publication of FRQ.To achieve this, 109 companies listed on the Tehran Stock Exchange between 2017 and 2023 were selected as a sample through a screening method. The results indicate that increasing FRQ reduces investors' positive sentimental responses. Furthermore, in companies with a higher market-to-book (MB) ratio, increasing FRQ has a negative effect on investors' sentimental responses. According to the authors, most studies on investor behavioral tendencies have focused on their effects on stock returns. However, no study has specifically examined how the quality of corporate financial statements can influence investors' emotional responses and their investment attitudes. IN order to enhance the legitimacy of governments in managing the economic system, it is recommended to establish indicators for the quality of financial reporting.

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ملخص

تعد جودة التقارير المالية، التي تهدف إلى عدم تناسق المعلومات بين المستثمرين، سمة أساسية من سمات المعلومات المحاسبية. وتبحث هذه الدراسة مسألة الحد من الاستحقاقات التقديرية في صافي الربح، والتي تعد مؤشرا على ارتفاع جودة المعلومات المحاسبية. بالإضافة إلى ذلك، فإن مشاعر المستثمرين، بسبب حساسيتهم تجاه درجات متفاوتة من معلومات الجودة المحاسبية، تؤول إلى ردود فعل مختلفة في سوق رأس المال. وتزيد هذه المشاعر من تعرض المستثمرين للمخاطر، نظرا لصعوبة التحكم بها. وتهدف هذه الدراسة إلى تقليل تأثير القرارات العاطفية للمستثمرين الناتجة عن نشر معلومات تتعلق بجودة التقارير المالية. ولتحقيق ذلك، تم اختيار 109 شركات مدرجة في بورصة طهران للأوراق المالية خلال الفترة الممتدة ما بين 2017 و2023 باستخدام طريقة الفرز. وتشير النتائج إلى أن ارتفاع جودة التقارير المالية يؤدي إلى انخفاض ردود الفعل العاطفية الإيجابية لدى المستثمرين. كما أن ارتفاع جودة التقارير المالية في الشركات ذات نسبة القيمة السوقية إلى الدفترية (MB) المرتفعة، يؤدي إلى تأثير سلبي على استجابات المستثمرين العاطفية. ووفقا للباحثين ركزت معظم الدراسات المتعلقة بالميول السلوكية للمستثمرين على آثار هذه الميول على عوائد الأسهم. في حين لم تتناول أي دراسة بشكل محدد كيفية تأثير جودة البيانات المالية للشركات على استجابات المستثمرين العاطفية ومواقفهم الاستثمارية. ومن أجل تعزيز شرعية الحكومات في إدارة النظام الاقتصادي، يوصى بوضع مؤشرات خاصة بجودة التقارير المالية.

RÉSUMÉ

La qualité de l'information financière (QIF), qui vise à réduire l'asymétrie d'information entre les investisseurs, est considérée comme une caractéristique essentielle de l'information comptable. Cette étude examine la réduction des provisions discrétionnaires dans le bénéfice net, qui sert d'indicateur d'une information comptable de meilleure qualité. De plus, les sentiments des investisseurs, en raison de leur sensibilité à différents degrés de qualité des informations comptables, entraînent des réactions différentes sur le marché des capitaux. Ces sentiments augmentent l'exposition au risque des investisseurs, car ils sont difficiles à contrôler. Cette étude vise à réduire l'influence des décisions sentimentales des investisseurs motivés par la publication de la QIF. Pour ce faire, 109 sociétés cotées à la Bourse de Téhéran entre 2017 et 2023 ont été sélectionnées comme échantillon à l'aide d'une méthode de

sélection. Les résultats indiquent que l'augmentation du FRQ réduit les réactions sentimentales positives des investisseurs. En outre, dans les entreprises dont le ratio cours/valeur comptable (MB) est plus élevé, l'augmentation de la QIF a un effet négatif sur les réactions sentimentales des investisseurs. Selon les auteurs, la plupart des études sur les tendances comportementales des investisseurs se sont concentrées sur leurs effets sur les rendements boursiers. Cependant, aucune étude n'a spécifiquement examiné comment la qualité des états financiers des entreprises peut influencer les réactions émotionnelles des investisseurs et leurs attitudes en matière d'investissement. Afin de renforcer la légitimité des gouvernements dans la gestion du système économique, il est recommandé d'établir des indicateurs de la qualité de l'information financière.

Keywords: behavioral finance theory, investors' sentiments, financial reporting quality (FRQ), Asymmetric information, representation conflict.

JEL Classification: B17, B26, D50, D53, D86, F65

1. Introduction

Investors are a cornerstone of capital markets, and the impact of their behavior, thoughts, and reactions to the market has been examined from various perspectives within behavioral finance theory. One concept related to investors that has gained attention in recent years is sentiment, and numerous studies have been conducted on this topic. In terms of the indicators affected by investor sentiment, Aboody et al. (2018), Fong (2015), Aboura (2016), Affuso and Lahtinen (2019), Zhang et al. (2017), Ding et al. (2019), Bu and Pi (2014), and Xu et al. (2020) have all examined the effect of investor sentiment on stock returns. According to Fu et al. (2021), there is a positive relationship between investors' sentimental responses and stock price crashes. Chen and Kuo (2014) explored how investor sentiment influences interest rate fluctuations. Du and Hu (2019) studied the impact of sentiment on investment decisions, while Ahmed et al. (2020) found a significant relationship between investor sentiment and insurers' financial stability. Aydogan (2017) analyzed sentiment dynamics in the context of global stock market fluctuations. Banholzer et al. (2019) investigated the effect of sentiment on portfolio selection, and Baek (2016) examined the interrelationships between stock prices, dividends, earnings, and investor sentiment. Few studies, however, have focused on the factors that affect sentiment.

Among these, Haritha and Uchil (2016) examined herding behavior, macroeconomic indicators, risk, and cost as factors influencing sentiment. Srivastava (2020) categorized the drivers of investor sentiment into psychological factors, economic factors, herding behavior, investor awareness, and market conditions. In a study by Hosseini and Morshedi (2020), the role of sentiment in stock market dynamics was analyzed, while Mehrani and Madanchi Zaj (2018) explored the effect of sentiment on excess stock returns. Kardan et al. (2018) investigated the impact of investor sentiment on a company's market-to-book (MB) ratio. Most studies on investor sentiment have focused on its effects on stock returns, and no study has specifically examined the role of financial reporting quality (FRQ) in shaping investors' sentimental responses and attitudes toward investment. FRQ serves as a tool to support investors. In countries where investor protection is stronger, FRQ tends to be higher (Persakis and Iatridis, 2016). Furthermore, one of the major challenges in capital markets is information asymmetry, both between insiders and outsiders and between minority and majority shareholders. Information asymmetry disproportionately harms minority shareholders, who often lack timely access to critical information, preventing them from making informed financial decisions and leading to potential losses. Studies indicate that improving FRQ reduces information asymmetry in the market, thereby increasing the investment efficiency of both companies and investors. With better FRQ, investors can more accurately identify investment opportunities, make more informed decisions, and avoid unnecessary losses (Houcine, 2017). As a result, high-quality financial reporting can enhance investor confidence and increase their willingness to invest. Transparent reporting, however, requires the accurate disclosure of both good and bad news. Studies show that markets respond differently to good and bad news, with investors reacting positively to good news and negatively to bad news (Bird and Yeung, 2012). When a company faces unfavorable financial or non-financial conditions, disclosing such information can trigger negative investor sentiment. In these situations, increased FRQ may lead to a loss of investor confidence and a decrease in their willingness to invest (Bird et al., 2014). Given this, it is difficult to definitively conclude how FRQ impacts investor sentiment regarding stock market investments. Therefore, this study aims to address the research gap and provide a clearer understanding of this relationship. The study focuses on a sample of companies listed on the Tehran Stock Exchange. In the Iranian stock market, emotional reactions and herding behavior are prevalent among investors. Most companies tend to avoid

disclosing accurate financial information. Despite the existence of regulatory rules for information disclosure, the quality of information disclosure in these companies remains low (Mehrani et al., 2020). Therefore, it is essential to investigate whether FRQ, along with the moderating role of a company's market-to-book (MB) ratio, influences investor sentiment.

2. Theoretical Foundations

2.1 Investors' sentiments

Traditional finance theories argue that investors are rational and make decisions based on logic. However, according to behavioral finance theories, investors are not always rational market participants and are influenced by moods that affect their behavior in the market (Haritha and Uchil, 2016). Behavioral finance theory suggests that financial markets can be impacted by factors such as news, rumors, irrational excitement, happiness, investor sentiment, and uncertainty (Jawadi et al., 2020). Investor sentiment, a key concept in behavioral finance theory, has been defined in various ways. It generally refers to investors' optimism or pessimism and has been described in terms of fear or risk-taking in some studies (Uygur and Taş, 2014). Sentiment reflects market participants' expectations or errors in expectations relative to a norm (Han, 2008). It also represents their beliefs about future events (Brown and Cliff, 2004). In particular, sentiment refers to beliefs about the future financial position of a company, such as cash flows or risk, that deviate from current realities (Baker and Wurgler, 2006). Sentiment encompasses optimism or pessimism about a financial future (Berger and Turtle, 2012). Despite the varying definitions, the common thread is that sentiment reflects expectations about the future, which can be either correct or incorrect (Bu and Pi, 2014). Based on these definitions, it can be argued that investors' responses can be classified as either sentimental or conservative. The former leads individuals to buy or sell assets quickly in reaction to good or bad news about a specific asset or the market, while the latter causes individuals to refrain from trading until they are more certain about the asset's future (Haritha and Uchil, 2016).

2.2 Financial reporting quality (FRQ)

Financial reporting is used by investors and creditors to decide whether to invest in a company or provide formal or informal lending. It also offers stakeholders insights into management's performance in terms of resource allocation and capitalizing on opportunities. Financial reporting informs stakeholders about cost planning, investment planning, financial performance, and stock market performance (Bamidele et al., 2018). Auditors play a critical role in capital markets by fostering confidence in companies. They help create trust among investors by ensuring that the financial reporting provided by companies is reliable and accurately reflects their market position and operational performance (Shahzad et al., 2018). The concept of financial reporting quality (FRQ) has emerged in the financial literature to instill confidence in the reliability of financial reports. FRQ refers to the standardization and preparation of financial and non-financial information by institutions, enabling stakeholders to make rational decisions (Bamidele et al., 2018). FRQ is often defined in terms of earnings quality and earnings management. Earnings quality reflects the extent to which reported earnings represent the underlying economic reality, while earnings management refers to actions taken to manipulate reported earnings to differ from actual earnings (Hairston and Brooks, 2019). Financial reporting serves as a key source of information about a company's financial condition for stakeholders and is the main bridge between the company and its stakeholders. Financial reports include both accounting and non-accounting information. Accounting information can be measured in monetary terms, while non-accounting information cannot (Menike et al., 2013). Given the importance of financial reporting to stakeholders, FRQ is emphasized by many accounting standards, and various criteria have been established to measure it. FRQ is a qualitative concept, meaning that financial reporting should be relevant, accurate, and designed to provide useful information to investors and creditors (Hairston and Brooks, 2019). By reducing information asymmetry in the market, high FRQ can enhance investor confidence in the information provided by companies, increasing their willingness to invest.

2.3 The effect of FRQ on investors' sentiments

When financial stress in the market increases, investors become more cautious and reluctant to engage in economic activities. In such situations, people grow skeptical of investment opportunities and the behavior of

their peers in the market (Mbanga et al., 2019). One factor contributing to increased financial stress is information asymmetry, where some individuals possess more information about financial assets or company activities than others. This advantage allows them to exploit opportunities at the expense of less informed market participants, imposing financial costs on those with less knowledge (Kouser et al., 2016). Improving financial reporting quality (FRQ) helps reduce information asymmetry and enhances market transparency (Biddle et al., 2009). However, when financial reports reveal negative information about companies, investors may choose not to invest. Therefore, FRQ can influence investors' expectations about a company's financial future, thereby affecting their sentiment toward investing. High-quality financial reporting can change investors' perception of a company, ultimately encouraging investment by providing credible signals of investor support (Zhang et al., 2019), reducing conflicts among stakeholders (Garrett et al., 2014), improving internal audit quality (Abbott et al., 2016), and even increasing managerial narcissism (Ham et al., 2017). It can also enhance corporate governance (Almaqtari et al., 2021; Shah et al., 2020; Yiosese, 2020), improve the quality of information disclosure (Martínez-Ferrero et al., 2015), and boost investment efficiency (Jung et al., 2014; Houcine, 2017; Angela and Aryancana, 2017).

Despite these insights, no study has specifically examined how FRQ affects investors' sentimental responses and perceptions of stock assets, highlighting a research gap. This study aims to address this gap by exploring the relationship between FRQ and investor sentiment. According to previous research, when companies perform well in the market, shareholders tend to have more confidence in them and exhibit fewer emotional reactions to managerial decisions. Furthermore, since a company's market-to-book (MB) ratio is a performance indicator, investors are more inclined to invest in companies with higher MB ratios (Fei, 2011). Therefore, a company's MB ratio may moderate the relationship between FRQ and investor sentiment.

Accordingly, the conceptual model of the study is as shown in Figure 1.

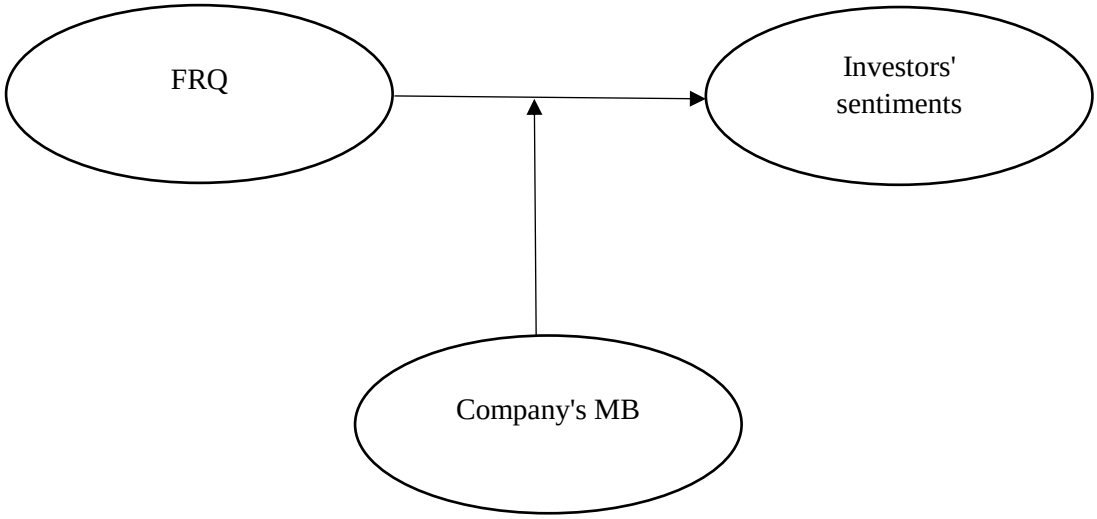

Figure 1. Conceptual model

3. Hypotheses

Hypothesis 1. FRQ has a significant negative effect on investors' sentiments.

Hypothesis 2. The company's MB modulates the effect of FRQ on the investors' sentiments.

Hypotheses are tested using regression model 1:

Model 1

$$SENT_{i,t} = \alpha_0 + \alpha_1 FRQ_{i,t} + \alpha_2 FRQ_{i,t} \times MB_{i,t} + \alpha_3 RET_{i,t} + \alpha_4 DPS_{i,t} + \alpha_5 LOSS_{i,t} + \alpha_6 RETVOL_{i,t} + \alpha_7 SIZE_{i,t} + \alpha_8 LEV_{i,t} + \alpha_9 ROA_{i,t} + \epsilon_{i,t};$$

Table 1. How to measure variables

Variable	Symbol	Measurement method
Dependent	Investors' sentiments (SENT)	The model proposed by Fu et al. (2021) is used in the form of Equation 2. $\mathrm{SENT_{it}} = 0.265\ \mathrm{PE_{it}} + 0.472\ \mathrm{ATR_{it}} + 0.204\ \mathrm{BSI_{it}};\ (2)$ Where PE is the price-earnings ratio, ATR is the asset turnover ratio, and BSI is the buy-sell imbalance. The PE ratio index is obtained by dividing the stock price by earnings. The stock exchange logarithm is considered as ATR. BSI is obtained by dividing the difference between the buying and selling prices of stocks by their sum.
Independent	Financial reporting quality (FRQ)	FRQ is defined based on the Yin and Tian (2017) model as described in Model 3. $\frac{\mathrm{TA_{i,t}}}{\mathrm{Assets_{i,t-1}}} = \mathrm{b_0} + \mathrm{b_1}\frac{\Delta\mathrm{Sales_{i,t}} - \Delta\mathrm{AR}}{\mathrm{Assets_{i,t-1}}} + \mathrm{b_1}\frac{\mathrm{PPE_{i,t}}}{\mathrm{Assets_{i,t-1}}} + \varepsilon_{\mathrm{i,t}};\ (3)$ In Model (3), total accruals (difference between earnings and cash) are denoted by TA, revenue from services and sales is denoted by Sales, accounts receivable are denoted by AR, property, plant, and equipment are denoted by PPE, and the asset is represented by Assets. $\mathrm{FRQ_{i,t}} = (-1) \times |\varepsilon_{\mathrm{i,t}}|$
Moderator	Market-to-Book Ratio (MB)	Market-to-Book Ratio Hairston and Brooks (2019)
Control	Return on Stock Price (RET)	Stock price growth for two consecutive years Hairston and Brooks (2019)
	Dividend per share (DPS)	The logarithm value of dividends paid to shareholders (Hairston and Brooks, 2019)
	Loss-making (LOSS)	It is a virtual variable and is equal to 1 if the company is a loss-maker. Otherwise, it is equal to 0 (Zhang et al., 2019).
	Stock return volatility (RETVOL)	The standard deviation of daily stock returns per year (Zhang et al., 2019).
	Company size (SIZE)	The natural logarithm of assets (Zhang et al., 2019)
	Leverage (LEV)	Total-debt-to-total-assets (Zhang et al., 2019)
	Return on total assets (ROA)	The return on assets ratio (Zhang et al., 2019)

4. Methodology

This study considers companies listed on the Tehran Stock Exchange as the statistical population. A screening sampling method was used to select the sample. Companies whose fiscal year ended on March 29th each year, did not delist from the stock exchange during the study period (2017 to 2023) to ensure comparability of financial data. They also did not have a symbol suspension for more than 3 months; they were not financial and credit institutions, banks, insurance companies, or investment funds to ensure fairness in the financial data. They paid cash dividends to shareholders during the research period due to the presence of the dividend variable in the obtained models and the availability of the required information in the information banks. Based on the applied filters, 109 companies were selected as the sample for the period of 2017 to 2023. Data collection was carried out using the information banks of the Tehran Stock Exchange, including the Codal website and the Ra'averd Novin software.

Table 2. Method of Selecting the Statistical Sample

All companies listed on the Tehran Stock Exchange from the beginning to the end of the year 2023		522
Companies whose fiscal year does not end in March of each year.	153	
Companies that have not maintained their five-year membership in the stock exchange.	86	
Companies whose financial information was insufficient for measuring the variables.	87	
Companies that changed their fiscal year during the review period.	43	
Companies classified as banks, credit institutions, brokerage firms, insurance companies, or holding companies.	44	
All companies that did not meet the sampling criteria.		(413)
Statistical Sample		109

5. Data Analysis

5.1 Descriptive analysis of data

Table 2 shows the descriptive statistics of the variables. The sample includes 109 companies listed on the Tehran Stock Exchange, whose information is examined in the period 2017 to 2023 and includes a total of 763 year-company observations.

Table 3. Descriptive statistics of variables

Variable	Mean	Max	MIN	SD	Skewness	Kurtosis	The number of observations
ACC	-0.009	0.951	-0.736	0.173	0.267	8.971	763
AR	0.171	0.887	0.000	0.181	2.121	7.066	763
DPS	5.661	9.317	0.113	1.554	-0.341	3.351	763
FRQ	-0.089	0.000	-0.761	0.101	-2.702	12.61	763
LEV	0.537	0.989	0.015	0.172	-0.261	2.919	763
LOSS	0.239	1.000	0.000	0.428	1.212	2.485	763
MB	1.815	6.961	0.522	1.022	2.201	8.859	763
PPE	0.269	0.89	0.004	0.187	1.192	4.181	763
RET	0.159	0.881	-0.066	0.176	2.069	7.769	763
RETVOL	0.209	0.695	0.008	0.150	1.561	4.744	763
ROA	0.113	0.976	-0.890	0.189	0.311	9.577	763
SALE	0.245	0.981	0.001	0.208	1.921	6.167	763
SENT	5.697	9.424	-0.007	1.672	-2.401	9.374	763
SIZE	13.779	17.95	9.89	1.624	0.813	3.373	763

According to the results, stock return volatility has the highest value in the food industry and the lowest in the chemical industry. The lowest returns are in the chemical industry and the highest in the food industry. Besides, the highest investors' sentiments are towards the pharmaceutical industry and the lowest sentiments are towards the petrochemical industry. FRQ is highest in the food industry and lowest in the automotive

industry. The stock price crash risk is the lowest in the cement industry and the highest in the chemical industry. Also, 24% of companies are on average lose-making. Examination of the coefficient of skewness of variables shows that FRQ has a negative skewness, indicating that the FRQ of most companies is above average. The same is true of investors' sentiments, and most investors react highly to market conditions.

5.2 Estimating FRQ

According to the coefficients of the F-Limer statistic and its significance level, the appropriate regression model was selected as a panel. Also, according to the coefficients of the Hausman statistic and its significance level, the data arrangement was confirmed as fixed effects. The above regression model was implemented to calculate the values of residuals, which are considered in calculating FRQ according to the operational definition.

Table 4. The results of model fitting to estimate FRQ

Variable	Coefficient	SD	t-value	Significance level
Asset ratio	-0.031	0.009	-3.444	0.031
The difference between sales and accounts receivable	-0.016	0.006	-2.666	0.186
Intercept	-0.013	0.003	-4.333	0.297
The coefficient of determination		0.526		
The adjusted coefficient of determination		0.484		
Durbin-Watson test		2.112		
F-Limer test (significance)		4.283 (0.001)		
Hausman test (significance)		179.68 (0.001)		
Fisher test (significance)		4.917 (0.001)		

According to Table 4, the significant value of the F-Limer test indicates the preference of the panel model over the cross-sectional model. Also, the results of the Hausman test indicate the preference of the fixed-effects model over the cross-sectional model. The significant value of the Fisher test indicates the significance of the regression model. The coefficient of determination is 51%, indicating the average accuracy of the fitted model. In examining the effect of quality of PPE on investors' sentiments (0.031),

the t-value indicates that increasing the asset ratio affects TA. Other variables in the model do not have a significant effect on accruals.

5.3 Testing hypotheses

In this section, model 1 is fitted to test the hypotheses. The model fit results are presented below.

Table 5. The results of testing hypotheses

Variable	Coefficient	SD	t-value	Significance level
FRQ	-1.761	0.425	-4.143	0.001
MB	0.368	0.033	11.151	0.001
FRQ * MB	0.727	0.261	2.785	0.001
ROTA	-1.521	0.219	-6.945	0.001
SIZE	0.791	0.029	27.275	0.001
LEVE	-0.201	0.191	-1.052	0.281
DPS	0.034	0.019	1.789	0.032
LOSS	-1.243	0.099	-12.556	0.000
RET	0.136	0.135	1.007	0.306
stock return volatility	-0.038	0.142	-0.267	0.822
CASH	0.178	0.319	0.570	0.591
Intercept	-5.455	0.488	-11.178	0.000
The coefficient of determination		0.814		
The adjusted coefficient of determination		0.798		
Durbin-Watson test		1.540		
F-Limer test (significance)		11.719 (0.001)		
Hausman test (significance)		104.793 (0.001)		
Fisher test (significance)		27.673 (0.001)		

According to Table 5, the value of the coefficient of determination is 84%, indicating the high accuracy of the fitted model.

Hypothesis 1 test: In examining the effect of FRQ on investors' sentiments (0.000), the significant t-value indicates that the effect of FRQ on investors' sentiments is significant at a 99% confidence level. Given the negative regression coefficient (-1.761), it can be argued that in companies with higher-quality financial reporting, investors' sentiments are lower. Therefore, Hypothesis 1 is confirmed. Confirmation of the hypothesis means that investors are less inclined to invest in companies with higher-quality financial reporting because, in these companies,

information such as turnover, transaction behavior, and the level of profitability of companies that are investment drivers are provided with more transparency. This can make investors more aware of the financial position of companies and the possibility of their helplessness and reduce their willingness to take risks and invest.

Hypothesis 2 test: In examining the effect of MB on FRQ (0.000), the significant t-value indicates that the effect of MB on FRQ is significant at a 99% confidence level. Considering the positive regression coefficient for the moderator (0.727) and the negative coefficient for the direct effect of the independent variable, it can be said that in companies with higher MB, increasing FRQ reduces investors' sentiments. So, Hypothesis 2 is confirmed. This shows that quality FRQ in companies that have a higher MB is more important to investors than other companies. Thus, higher-quality information disclosure can be a stimulus to deter investors from sentimentally investing in the stocks of companies with higher MB.

For further analysis, companies were classified into two groups: companies with low MB and those with high MB according to whether their MB was lower or higher than the mid-market MB, and then the regression model was fitted separately for them. Finally, the effect of FRQ on investors' sentiments in the two groups was compared using the Lin-Wong divergence measure. The results can be seen in Table 5.

Table 6. The results of further analysis

Variable	Low MB		High MB		Wald test
	Coefficient	t-value	Coefficient	t-value	
FRQ	0.055	2.240	-0.159	-2.15	1.055
ROA	-1.430	-2.498	-0.251	-1.186	2.407
SIZE	0.176	3.963	0.201	7.146	0.644
LEV	-0.443	-0.998	-0.167	-0.726	0.708
DPS	-0.012	-0.234	0.022	0.754	0.750
LOSS	-2.082	-11.600	-0.382	-2.482	9.884
RET	-0.475	-1.162	0.323	1.285	2.173
RETVOL	0.795	1.646	0.061	0.226	1.715
CRASH	0.735	0.870	-1.012	-2.799	2.394
Intercept	3.927	5.472	3.487	8.799	0.691

According to Table 6, there is a significant difference between FRQ and investors' sentiments in both companies with high and low MB so that as the company's MB increases, investors' sentimental response to receiving accounting information decreases.

6. Conclusion

Traditional financial theory posits that investors in the market are rational and engage in investment solely to maximize profits. However, behavioral finance theory is based on the view that investors' behavior is influenced by the available news in the market (Ghalibaf ASL & Jamshidi, 2019). Thus, the present study examines whether the quality of financial reporting affects the behavioral tendencies of investors and whether this relationship is influenced by the company's stock value. The findings indicate that with an increase in the quality of financial reports, investors exhibit negative behavioral tendencies toward the stock market transactions of the company. Furthermore, the analysis shows that the company's stock value plays a moderating role in the relationship between financial reporting quality and investors' behavioral tendencies. Specifically, in companies with higher stock values, an increase in financial reporting quality leads to a decrease in investors' behavioral tendencies toward investment. Conversely, in companies with lower stock values, investors display a direct relationship between behavioral tendencies and the quality of financial reporting. The results of the present study align with the views of Mibanga, Darat, and Park (2019), who suggested that investors react to market asymmetries. Additionally, the findings are consistent with Fi (2011), who emphasized the importance of stock value for investors. The results underscore the significance of stock value in the application of qualitative accounting information in investment decisions. In practice, it is the stock value of companies that can steer investors' behavioral tendencies such that, in cases where financial reports are of high quality, investors respond positively to the company's stock. However, for companies with lower stock values, if high-quality financial reports are presented, investors react positively, indicating greater behavioral tendencies toward investment. Given that increasing the quality of financial reports for companies with lower stock values results in positive behavioral tendencies among investors toward their reports, it is recommended that to protect shareholders from the major herding behavior or behavioral biases prevalent in the stock market, they purchase shares of companies with higher values in the industry.

Additionally, obtaining higher-quality information in the portfolio of high-value companies is suggested as a priority in decision-making. The findings are also valuable for capital market policymakers in two other significant aspects. From the perspective of corporate oversight and the need to limit and contain the behavioral tendencies of individual investors, considering the emotional intelligence level of the community, it is essential to maintain an optimal level of accruals, which represents the level of financial reporting quality, as mandated by regulatory bodies overseeing companies listed in the capital market. From the perspective of regulating the supply and demand for company stocks, considering the importance of behavioral tendencies and the government's responsibility in the economic system, limiting companies that do not meet proper financial reporting standards is proposed as another solution.

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