Effect of Continuity and Smoothing of Profit on Corporate Profit - Stock Returns With Taking into Account the Heterogeneous Relationship of Profit - Efficiency on Companies Admitted to the Tehran Stock Exchange

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Abstract
The purpose of this study was to investigate the effect of continuity and smoothing of profits on the relationship between corporate profits - Stock efficiency taking into account the heterogeneous profit relationship – efficiency on companies admitted to the Tehran Stock Exchange, generally, profit has always been a factor in investor decisions. In this regard, on the one hand, accounting and stock returns are linked together, on the other hand, the variable of earnings quality is related to accounting profit and stock returns. So it may be that the question arises what is the effect of the continuity and smoothing of profits on the relationship between accounting profit and stock returns? The present research seeks to answer this question; as a result, the main question of the research is presented as follows: What is the effect of continuity and smoothing of earnings on the relationship between earnings and stock returns for listed companies in Tehran Stock Exchange? To check this, the data of 123 companies listed in Tehran Stock Exchange during the years 2012-2016 were used; data was analyzed using the Logit method using Eviews10 software. Evidence and empirical findings have shown that; both profit continuity and profit smoothing criteria have significant effects on the heterogeneous relationship between current period earnings and stock returns.

Keywords: Profit; Profit continuity; Profit smoothing; Stock returns; Stock exchange.

1. Introduction
One of the most important and basic accounting numbers is accounting profit, which is the basis of many decision-making patterns. The accounting profit is somewhat effective, which is seen as the basis for any discussion and accounting opinion (Jamalianpour and Safavi, 2013). Profit as one of the most important decision-making bases with universal acceptance reflects the real performance of companies; but the measure of profit is derived from elements such as sales, income, cost, etc. The measurement process is full of calculations, estimates, and ideas of smoothing, various methods and various judgments, which leads to a deep divide between actual earnings and reported earnings. Therefore, users' criticism of such profits is logical and serious, inn economical societies like Iran, which are at the beginning of the process of privatization, measuring the real profitability and proper valuation of assets, is the failure of companies in global markets and the loss of investors' confidence in this type of market and the ineffectiveness of this indicator of economic fever that plays an important role in free markets (Etemadi and Imani, 2007). Therefore, it should be noted that profit as the most important source of information may not reflect the real performance of companies and their management; because, due to the inherent flexibility of accounting standards, the interpretation and application of accounting methods in many cases is subject to judgment by the managers; Therefore, in addition to quantity of profit, the quality of profit should be considered (Mohsen et al., 2012).

But in general, profit has always been a factor in investor decisions. Profit growth is a good indication of the company's status to investors. But it should be noted that it cannot be said that profit growth for all companies has a similar message, because profits are different factors. The two effective factors that can make the profit fluctuate are income and expense. Increases in profits either due to increased revenues or because of lower costs , that do not produce the same results and results.

It thus becomes clear that there is a relationship between the quality of profit with income as well as the quality of profit with stock returns. But the topic that has attracted a lot of attention in recent decades is the study of the relationship between accounting revenue and stock returns. These considerations are driven by the importance of accounting earnings for investment decisions and revenue forecasts. Investors in their asset allocation decisions make up their expectations about future corporate cash flows and the risks associated with these cash flows. Since income contains information about cash flows; Investors use earnings information to refine their expectations for future flows and thereby review stock prices. In other words, income is useful for the formation of stock prices in companies (Jacobs et al., 2017).

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Rahpeimafard (2017), in a study entitled "A Comparative Study of the Relationship between Quality Indicators of Earnings with Extra Return on Stocks with Systematic Risk Fear Based on the Francis Model", they examined this issue. The test results indicate that; the quality of accruals, profit continuity and the ability to predict profits in lower risk has a statistically significant positive relationship with stock returns, but these variables in high risk are not related to stock returns, however, the variables on the timeliness of profit information in low and high risk has a statistically significant relationship with the stock return variable. Najafi and Zabihi (2017), studied the relationship between accruals of working capital, earnings quality and stock returns of companies admitted to the Tehran Stock Exchange. The results of the research at a significant level of 95% indicate that there is a significant relationship between accruals capital turnover and earnings quality (profit continuity). The results of the second hypothesis of the research showed that there is a significant relationship between accruals of working capital and stock returns.

Hadi et al. (2017), in a study titled "The Relationship between the Quality of Profit Dispersion Profit and Stock Returns in the Companies Admitted to the Stock Exchange" have reviewed this issue. They stated in this study that; the first step in measuring the performance of a business unit is to calculate the achieved returns based on pre-set goals for that. As increasing shareholder value as the main objective of business units has been raised, therefore, a business unit must act in such a way as to increase shareholders' equity by making good returns. Return on the investment process is a motivating motive and a reward for investors. Investor returns are important for investors, because investment activity is essentially geared toward profitability.

Tavanai et al. (2016), in a study entitled "The quality of profit and stock returns in companies admitted to the Tehran Stock Exchange" reviewed this issue. The results of hypothesis testing show that there is a significant relationship between components of profit quality and stock returns. Isidoro and Das (2017), have studied this issue in a study entitled "Quality of Profit and Heterogeneous Income–Returns". The results from this research show that earnings are more important for investors, because in this case there is a high level of uncertainty and risk that is in line with the idea that investors are talking more about basic information about the company during the downturn. It is then seen that the importance of accounting earnings varies for firms in each market regime: Special companies spend more time in a diet that has a high return on their income and other companies spend more time in a diet that has little to do with revenue.

Shubita (2016), explores this issue in a study entitled "Income and Stock Returns Models." The main findings of this research show that earnings and stock prices are positively and significantly related and the ability to predict returns is less than the price models. Based on these results, in this research, it is recommended to improve the profit from income through the collection of dividends and returns over a long period of time.

Jorgensen (2016), investigated the relationship between cumulative stock returns and future earnings dispersion in a research aimed at “investigating the relationship between earnings dispersion and cumulative returns”. The results show that, there is a significant and positive relationship between stock returns and earnings dispersion, because higher profit dispersion is associated with higher expected returns. The results also indicate that; there is a meaningful and negative relationship between stock returns and future profitability dispersion.

According to the above literature, it is clear that on the one hand, accounting and stock returns are related to each other, on the other hand, the variable of continuity and smoothing quality is related to both accounting revenue and stock returns. Therefore, it may be argued that the effect of the continuity and smoothing of profits on the relationship between accounting revenue and stock returns. The present research seeks to answer this question and as a result the main question of the research is presented as the effect of the continuity and smoothing of profits on the relationship between accounting profit and stock returns for companies accepted in Tehran Stock Exchange.

1.1. Theoretical Foundations

**Profit:** Profit is a kind of financial gain, and it happens when the total revenues of the company increase from the total costs incurred to earn those revenues. The profits of the company are owned by the owners of the company and they are the ones, who decide whether to redeem the profit in the company's business again (Mehrani, 2014). Profitability is a topic that has become the focus of attention in recent years in evaluating corporate financial performance. Given the fact that investors are seeking profitable activities and trying to increase profits, however, the existence of limitations has led to the fact that it is not possible to reliably calculate the profit and its incremental basis as the basis for the contract decision.

**Quality of benefit:** One of the possible reasons for the variety in the definitions of the quality of profit can be the researchers' different views on the various aspects of the concept, for this reason, the issue of quality of profit is a complex subject that so far no researcher has been able to provide a complete definition for it (Karami et al., 2006).

**Stock returns:** Stock returns of different companies in the stock market are defined as the percentage of price changes in a given time period (Heidar et al., 2015). The incentive for investment and activity in the stock market is a function of the real rate of return on investment, and if the rate is higher than the interest rate in other business activities, the incentive for trading in the stock market increases. The value of the stocks studied in the stock market is obtained by calculating the present value of expected future flows. These expectations are made up of two separate factors:

- Expected profit at the end of the year.
- Expected value from stock sale, which investor and shareholder are expected to earn at the time of sale.

Therefore, the value of each share is the present value of the expected cash flows arising from the two above factors, namely the expected return on initial investment, plus the profit from the sale of shares, which is the difference between the purchase price of the stock and its selling price (Zakri, 2013).
1.2. The Effect of the Quality of Profit on the Heterogeneous Relationship Between Current Period Profits and Stock Returns

The idea that earning information is beneficial for stock returns was first announced by researchers such as Wolf and Brown (1968), Beaver (1968), and Watts and Zemmirman (1986). This literature relies on three important theoretical links developed by Watts and Zemmirman (1986) and Beaver (1968). Firstly, accounting information earnings are expected in the future. Second, current and projected future cash flows predict the company's future cash flow. Third, the stock price represents the current value of expected cash flows in the future.

The view that income is beneficial to investors is also confirmed by accounting professionals around the world. For example, both the Financial Accounting Standards Board of the United States and the International Accounting Standards Association have stated that, the main goals of financial reporting are as a tool for providing information that is important to capital providers in deciding whether to allocate resources to a company. The decision criterion and the usefulness that guides the revenue information make it possible that; Income is a reasonable measure of corporate performance. As a result, income-based valuation models are commonly used by academics, professionals, and investors. (Karami et al., 2006)

The idea that it has lost its useful profit has led to research on risk mitigation factors. One view in this regard is that the performance of stock price information processing has changed over time. According to this view, an increase in the volatility of unrelated marketing outcomes impedes the ability to return income to reflect information (Donuts et al., 2004). Another view is that the problem is that accounting earnings have lost their quality, that is, their ability to reflect future cash flows has declined.

Rajagupoul and Vankatchalam (2011), provide evidence in accordance with this view and show that; Earnings have lost their quality over time. They show that; increasing stock volatility in the United States is accompanied by a decline in the quality of income and this relationship continues over time. The explanation presented in this regard is that; The poor quality of income will increase revenue growth and lead to dispersion of investor confidence in future corporate cash flows. Meanwhile, financial analysts are turning to other sources of information, because they consider income as a weak signal. This, in turn, causes more fluctuations, because analysts use different sources of information and investors follow different analysts.

In summary, the change in revenue utilization for corporate returns shows differences in the underlying business aspects and the quality of the accounting system to reflect current and future performance.

Gylyle and Hayen (2000), examine time changes in income, cash flows and accruals. They argue that; If the time changes in income are similar to cash flow from time to time, which includes basic performance that is not affected by the accounting system), accounting earnings simply show changes in basic performance and reflects structural changes in the quality of the accounting system over time. Their results do not support this hypothesis. They found that; Reducing profitability does not result from lower corporate cash flows, but rather changes in the relation between cash flow and revenue. In other words, changes in accounting accountability items are shown. This finding shows that; the ability of the accounting system to obtain economic changes as accounted for by accruals, it is important to explain the time variation in the profitability of returns for stock returns.

Previous studies on the temporal change in income utilization typically add a one-year income and returns model at a time, year to year or group of years or simply by a time variable to the model (Rajagupoul and Vankatchalam, 2011). But this approach is incomplete for various reasons. First, the lack of attention to the fact that time diversity in the profitability of income does not affect all companies. Secondly, the division of time into years or groups of years is subjective and has no theoretical foundations. When a company experiences high or low communication between income and return, it does not necessarily match the calendar years. Third, although previous studies control time changes, they do not model or explain the changes. The traditional methods of changing the heterogeneous regime recognize the gap in income and return ratios and identify groups of companies with the same dynamics of the regime. Thus, in this research, the literature of the past is completed using the time component modeling of the relationship between income and returns. But more important and different from previous studies, the method used in this study allows companies to experience courses that generate income with direct returns and periods whose revenues are inversely related to returns.

2. Methodology

The present research is based on the purpose of application and is of a descriptive-correlative type in terms of its nature. In this research, the financial statements of the listed companies listed in Tehran Stock Exchange have been used to test the research hypotheses. The reasons why the statistical society is selected is that; Tehran Stock Exchange has a fairly comprehensive information about the status of companies and their financial and economic performance and a and it can be said that the only source of information that can be accessed by the financial resources of the companies and testing the research models. The scope of this research includes all companies that have the following conditions: In order to homogenize the statistical sample in the years before, 2012, Tehran Stock Exchange has been accepted; In terms of increasing comparability, their financial period ended March, and during the years mentioned, did not change its financial period; the research period is from 2012 to 2015. Information about their audited financial statements is available for the period under review; Due to the specific nature of the activity, they are not part of the companies' active in the intermediary industry, insurance and banks. The number of companies admitted to the Tehran Stock Exchange by the end of fiscal year 2016 amounts to 507 companies. Finally, 123 companies were selected as the final sample and their data was analyzed. Library techniques are used to collect the necessary information on theoretical issues and the history of empirical studies. Various indices and data
related to the variables of the research can be extracted from the annual financial statements of the companies, the report of the board of directors to the general shareholders' meeting and the website of the stock exchange. After collecting the data that is required to conduct the research, choosing the right instrument for the calculation and analysis of information about variables is very important. The logit and probit method will be used to calculate and prepare the data as well as to analyze them. All calculations will be done using Excel and EViews10 software.

2.1. Model and Research Variables

According to Isidore and DS (2017), the following regression model was used to investigate the relationship between research variables:

\[ P_i = \Phi[y_0 + y_1 \text{EarningsQuality}_i + y_2 \text{Size}_i + y_3 \text{Leverage}_i P_i + y_4 \text{Intangibility}_i + y_5 \text{OperatingPerformance}_i + y_6 \text{Market_to_book}_i + y_7 \text{SalesGrowth}_i] \]

2.2. The Dependent Variable

Pi: Represents a virtual variable that is; If the standard deviation of the correlation between profit-return (calculated annually) for participation in year t is greater than the standard deviation of the correlation between profit-returns for the industry concerned, the company is known as a company with high fluctuations in the relationship between returns - profits, and the dependent variable will have a value equal to one otherwise the value will be zero.

2.3. Independent Variable

Earning Quality: Represents the quality of profit, which is used to measure it from the three indicators of, and profit continuity indicators and profit smoothing. In each hypothesis, instead of Earning Quality, the variable is replaced by the type of independent variable.

estimation model for measuring the profit quality is as follows:

\[ \text{TCA}_i = a_0 + a_1 \text{CFO}_i + a_2 \text{CFO}_i + a_3 \text{CFO}_i + E_i \]

Where in:

TCA: Indicates the total commitment of the company i in year t
CFO: Indicates the operating cash flow of company i in year t
E: represents the term of the model error component.

In order to calculate the profit continuity index, the following regression model is used:

\[ E_i = \beta_0 + \beta_1 E_i + U_i \]

Where in:

E: represents the earnings per share of the company.

In the above equation, the estimation coefficient \( \beta_1 \) represents the profit continuity index.

The profit smoothing index is defined as the ratio of standard deviation of profit before unusual items to standard deviation of operating cash flows of the company.

2.4. Control Variables

Size: The size of a company is defined and measured as the natural logarithm of the company's assets:

\[ \text{Size} = \log (\text{assets}) \]

Leverage: The Company's leverage is defined as the ratio of total liabilities to total company assets:

\[ \text{Leverage} = \frac{\text{debits}}{\text{assets}} \]

Intangibility: The intangible asset of the company is defined and calculated as the ratio of intangible assets to the total assets of the company:

\[ \text{Intangibility} = \frac{\text{Intangible assets}}{\text{all assets}} \]

Operationig performance: The operational performance of the company is defined and calculated as the ratio of operating profit to the company's sales:

\[ \text{Operationig performance} = \frac{\text{Operating Profit}}{\text{Sales}} \]

Market to book ratio: Represents the market value of the company, which is defined as the market value of equity at the book value of equity:

\[ \text{Market to book ratio} = \frac{\text{The market value of equity}}{\text{Book value of equity}} \]

Sales growth: The Company's sales growth index is defined as the change in sales of the company during the year t-1 to year t divided by the company's sales in year t-1:

\[ \text{Sales growth} = (\text{Sales}_t - \text{Sales}_{t-1}) / \text{Sales}_{t-1} \]

2.4.1. Hypotheses

First hypothesis: The profit quality based on the profit continuity index affects the heterogeneous relationship between company profits-stock returns.

Second hypothesis: The profit quality based on the profit smoothing index affects the heterogeneous relationship between company profits - stock returns.
3. Results

3.1. Descriptive Statistics of Variables

Logit regression method is used to estimate the research patterns. The sample of this study includes 123 selected companies listed in Tehran Stock Exchange. In the following, descriptive statistics of the research variables and data analysis are presented.

With proper use of descriptive statistics can be expressed exactly the characteristics of a bunch of information. Descriptive statistics are always used to determine the characteristics of research information that will continue to present this topic for the main variables used in the research.

| Variables            | Average | Middle | Standard deviation | Skewness | Elongation | maximum | minimum | number |
|----------------------|---------|--------|--------------------|----------|------------|---------|---------|--------|
| P                    | 0.386513 | 0      | 0.487351           | 0.466112 | 1.217261   | 1       | 0       | 615    |
| EARNING QUALITY1     | 315644.8| 139461.5| 522171.6          | 3.427624 | 16.11846   | 340037  | 5521.618| 615    |
| EARNING QUALITY2     | 0.242651 | 0.242651| 0                   | 0        | 0          | 0       | 0.242651| 615    |
| EARNING QUALITY3     | 3.222937 | 0.755638| 10.58782           | 7.531089 | 70.75813   | 115.9571| 0       | 615    |
| SIZE                 | 6.206083 | 6.162383| 0.52388            | 0.182932 | 3.180478   | 7.518766| 4.914497| 615    |
| LEVERAGE             | 0.615575 | 0.609452| 0.254498           | 1.323319 | 12.19807   | 2.315169| 0.012734| 615    |
| INTANGIBILITY        | 0.0982  | 0.0435 | 0.0168             | 3.82     | 21.9       | 0.152   | 0.0188  | 615    |
| OPERATION PERFORMANCE| 0.792094| 0.060217| 4.109476           | 7.371963 | 74.04653   | 45.40156| -18.41783| 615    |
| MB                   | 3.671739 | 3.161944| 2.997448           | -0.2565  | 10.98318   | 15.79541| -14.6787| 615    |
| SALESGROWTH          | 0.389632 | 0.100361| 2.51062            | 8.762765 | 83.61438   | 25.75222|        |        |

Source: Research findings

Continue the table 1, Frequency table variable P

| Number of 0 | Number of 1 |
|-------------|-------------|
| 375         | 240         |

Source: Research findings

The main central indicator is the mean that represents; the point of equilibrium and the center of gravity is the distribution and it's a good indicator of the centrality of data, which is equal to 20/6 for the company size variable (SIZE). The middle ground is another central indicator that shows the state of the community and states that half of the data is less than this and the other half more than that. Also, the uniformity of the mean and the mean value indicates that this variable is normal, which is 16.6 for the company size variable. In general, scattering parameters are a criterion for determining the degree of dispersion from one another or their dispersion relative to the mean. The most important parameter of dispersion is the standard deviation, which is equal to 52/0 for the company size variable. The value of the skewness also indicates the probability distribution asymmetry, which is equal to 0.18 for the company size variable. The interpretation of data related to other variables is similar to that of the size of the company that was mentioned above.

3.2. Inferential Statistics of Variables

3.2.1. Durability of Variables

Each time series is a stochastic or random process.

In time series, realization of time is used to infer about the stochastic process of data. One of the random processes that are considered in the time series is the static random process (durability). When a random process is stationary or stable, the mean and variance are constant over time and the covariance between two periods of time depends only on the distance or interruption between the two periods of time and there is no connection to the actual time of calculating the covariance.

Before estimating the model, it is necessary to test the reliability of all the variables used in the estimates. Because non-invariant variables cause false regression problems. For conducting the test in this research, a test has been used; the results of this test are presented in Table (2).
The table above shows that because LR statistics, The probability is less than the 5% significance level. Significance of the whole regression model is confirmed. In addition to the above, the value of the M2 coefficient R2 indicates that; about 82% of the dependent variable variations are explained by the independent variables of the research which expresses the high explanatory power.

3.3. Estimation of Research Pattern

3.3.1. Estimate the First Model

Logit's approach is used to estimate the research pattern. The results of the estimation of the research pattern are presented as follows:

Table 3. Estimates of the results of the first pattern of research

| Variables            | Z      | Coefficient | Probability |
|----------------------|--------|-------------|-------------|
| C                    | -1.266177 | -1.907680   | 0.2054      |
| EARNING QUALITY1     | 2.692735 | 0.455250    | 0.0049      |
| SIZE                 | -3.855951 | -0.200829   | 0.0000      |
| LEVERAGE             | -2.139326 | -0.047762   | 0.0092      |
| INTANGIBILITY        | 2.847802  | 0.428616    | 0.0000      |
| OPERATIONG PERFORMANCE | -2.789893 | -0.121275   | 0.0053      |
| MB                   | -3.015439 | -0.029048   | 0.0099      |
| SALES GROWTH         | 3.196472  | 0.166882    | 0.0004      |

R-squared McFadden= 0.8216
Prob (LR-statistic) =0.0000

The table above shows that because LR statistics, The probability is less than the 5% significance level. Significance of the whole regression model is confirmed. In addition to the above, the value of the M2 coefficient R2 indicates that; about 82% of the dependent variable variations are explained by the independent variables of the research which expresses the high explanatory power.

3.3.2. The Second Model Estimation

The results of estimating the second pattern of research are presented as follows:

Table 4. Estimating the results of the second pattern of research

| Variables            | Z      | Coefficient | Probability |
|----------------------|--------|-------------|-------------|
| C                    | 13.29355 | 0.048012    | 0.0000      |
| EARNING QUALITY2     | -2.288028 | -0.285300   | 0.0228      |
| SIZE                 | -1.870540 | -0.138200   | 0.0623      |
| LEVERAGE             | -4.525991 | -0.092392   | 0.0000      |
| INTANGIBILITY        | 4.867861  | 0.084439    | 0.0000      |
| OPERATIONG PERFORMANCE | -3.774851 | -0.828595   | 0.0002      |
| MB                   | -2.823282 | -0.065804   | 0.0050      |
| SALES GROWTH         | 2.343041  | 0.290554    | 0.0197      |

R-squared McFadden= 0.8209
Prob (LR-statistic) =0.0000

The table above shows that because LR statistics, The probability is less than the 5% significance level. Significance of the whole regression model is confirmed. In addition to the above, the value of the M2 coefficient R2 indicates that; about 82% of the dependent variable variations are explained by the independent variables of the research which expresses the high explanatory power.
3.3.3. Estimate the Third Model

The results of estimating the third model of research are presented as follows:

| Variables                  | Coefficient | Z     | Probability |
|----------------------------|-------------|-------|-------------|
| C                          | -0.842182   | -0.681521 | 0.3997     |
| EARNING QUALITY3           | 3.656677    | 0.340323 | 0.0117     |
| SIZE                       | -2.460194   | -0.123891 | 0.0456     |
| LEVERAGE                   | -2.165117   | -0.050922 | 0.0689     |
| INTANGIBILITY              | 2.970044    | 0.758297 | 0.0031     |
| OPERATIONG PERFORMANCE     | -2.256872   | -0.038309 | 0.0244     |
| MB                         | -2.331794   | -0.023671 | 0.0201     |
| SALES GROWTH               | 3.814358    | 0.413216 | 0.0002     |
| R-squared McFadden= 0.8424 |             |       |             |
| Prob (LR-statistic) =0.0000|             |       |             |

The table above shows that because LR statistics, The probability is less than the 5% significance level. Significance of the whole regression model is confirmed. In addition to the above, the value of the M2 coefficient R2 indicates that; about 82% of the dependent variable variations are explained by the independent variables of the research which expresses the high explanatory power.

Findings of Table 4 show that profit continuity has a significant effect on the heterogeneous relationship between company profits and stock returns (coefficient of 0.28 with probability 0.0228), therefore the second hypothesis of the research is not rejected.

Findings of Table 5 show that the profit smoothing variable has a significant effect on the heterogeneous relationship between corporate profits - stock returns (coefficient of 0.34 with a probability of 0.117), thus the third hypothesis of the research is not rejected.

4. Discussion and Conclusion

The above findings show that; different indicators including profit smoothing index and earnings index have significant effects on the relationship between companies' profits - stock returns of the companies surveyed. In this regard it is stated that; according to the literature, accounting profit can provide information about the company's returns in three ways. First, accounting earnings provide information about expected future earnings. Second, the current and expected profit forecasts the future cash flow of the company. Third, the stock price represents the current value of expected cash flows in the future. As a result of the existence of a meaningful relationship between the continuity and profit smoothing indices and the inhomogeneous relationship of corporate profits, theoretically, the returns are verified. This conclusion is consistent with the findings of Rahpeimafard (2017), Najafi and Zabihi (2017), Hadi et al. (2017), and Isidoro and Das (2017).

Evidence and empirical findings of the research showed that; the first hypothesis of the research is that the quality of profit is influenced by the profit continuity index on the heterogeneous relationship between company profits - stock returns. It is therefore suggested that; when choosing investors to choose their own investment choices, investors consider the inhomogeneity of the company's profits - the stock returns of the companies, and the moderate effect of variables such as profit continuity.

Evidence and empirical findings of the research showed that; the second hypothesis of the research suggests that the profit quality based on the profit smoothing index affects the heterogeneous relationship between company profits - stock returns. As a result, it is suggested that analysts consider the heterogeneous relationship between corporate profits - stock returns and the effects of smoothing the profit on this relationship in order to provide comprehensive and accurate analyzes.

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