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Analysis of Dividend Policy of the Romanian Financial Investment Companies

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A R T I C L E I N F O

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A B S T R A C T

The purpose of dividend policy, promoted by a joint-stock company may be: building trust and forming a true business ownership, business growth, increase creditworthiness of the company and of trust others to it. The paper aim is to study the dividend policy to those five Romanian Financial Investment Companies in the period 2006-2012, through a series of specific indicators such as: dividend per share, dividend growth rate, dividend distribution rate, dividend yield, earnings per share, price earnings ratio, in order to reflect the performance and the impact of financial crisis on their performance on the financial market. Tracking the dynamics of these indicators allows us to draw conclusions on the position of the companies on the securities market, and their level influences the decision of shareholders to maintain or withdraw of shares, to invest in other more profitable businesses. Dividend yields made every year by Financial Investment Companies justify the high interest from investors for these shares. Currently, these companies offer a very attractive return for investors compared to the average dividend yield of the Stock Exchange. The evolution of the price earnings ratio shows the normal trend of rise of the companies' shares in the period 2007-2008, after that they have entered the market at highly undervalued levels especially after declining in 2008.

1. Introduction

Dividend policy plays an important role in the relationship of the company with its shareholders and it has a major influence on its developments in the market. For stock market investors, dividend policy practiced by the companies is an important milestone in the adoption of their investment strategy. This has a greater importance for investors who believe in a lower risk, which saves money in the capital market, as an alternative to the banking system, taking into account that businesses always involve a certain degree of risk (Boca, G.D., 2011).

Dividend policy, and therefore, the decision to increase, decrease or maintain constant the level of dividends distributed is one of the most contested activities of financial policy for any company. Different models of dividend payment are followed according to the yield, investment opportunities and company size: some companies adopt a stable policy of paying dividends, others pay a constant amount, some companies increase continuously the payments of dividends, from year to year, and many other companies do not pay dividends at all.

Evolution of studies related on dividend policy has led to a better coordination of financial activities of the companies; it refers to a good correlation of dividends distribution, depending on what is more important to the company. From the point of view of shareholders, dividend policy emphasizes two features: stability of dividends and credibility of dividend policy, in general (Onofrei, 2003).

The stability is assessed depending on the evolution of the volume of distributed dividends from year to year. In their previous investigations, shareholders start from studding previous dividend policy of the company, establishing fluctuation of the distribution rate and the volume of dividends. On the other hand, credibility is derived from capability of sharing profit, without neglecting the company's shareholders that is a long term studied phenomenon.

Dividend policy is a way of asserting the joint-stock company, to make it known and appreciated in terms of viability, prosperity, profitability and growth. *The purpose of dividend policy*, promoted by a joint-stock company may be (Toma *et al.*, 2003):

- strengthen confidence and forming a true shareholding faithful to the company that is willing to sell shares in the financial market, contributing to the stability of the shares price and sock exchange value of the company (the case of consistent or increasing dividends from one year to another);
- economic growth of the company (when priority is given to capitalization of profits and not to the dividend increase);

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- increase the creditworthiness of the company, of the confidence others to it (when it promotes a stable or increasing dividend policy from one year to another).

It is natural that holders of shares always follow with great attention the profit distribution for payments of dividends. Therefore, dividend policy promoted by the issuer becomes one of the decisive factors that directly influence the shares price on the market and a great demand for the company shares. The dividend is the only form of participation of shareholders at the profit sharing of a joint-stock company (Bărbuță-Mișu, 2010). The dividend policy will be better managed, the more it will enjoy of generous investors and higher prices of their shares.

The distribution of dividends is primarily a payment and a deprivation of the company by a part of its internal funding, being an important element of its financial decision, alongside the investment and capital allocation policies. Meanwhile, the dividend distribution policy is the way that it provides an income to shareholders who have done a financial investment in the company. There is real opposition between the *company*, as economic entity and autonomous centre for decisions, and *shareholders*, as providers of capital. This opposition is mitigated to the extent that capital accumulation is a source of income or surplus value on long-term.

Accordingly, the dividend policy is very important for joint stock companies. Thus, managers must continually decide which the most efficient distribution of profit is, what share of the profit will be distributed for payment of dividends, and what allocation policy will be chosen so as to achieve the major objective of the company that is *maximizing their value*.

In the scientific literature, many studies were developed related to dividend policy, based on diverse determinant factors of dividend policy, the relationship between dividend policy and economic activity, the influence of financial crisis on dividend policy of the companies etc.

Thus, Al-Malkawi (2007) examines the determinants of corporate dividend policy in Jordan, using a firm-level panel data set of all publicly traded firms on the Amman Stock Exchange between 1989 and 2000. His study examines the determinants of the amount of dividends using Tobit specifications. The results of this study suggest that the proportion of stocks held by insiders and state ownership significantly affect the amount of dividends paid. Size, age, and profitability of the firm seem to be determinant factors of corporate dividend policy in Jordan (Al-Malkawi, 2007).

Gupta and Banga (2010) re-examines various factors that have a bearing on the dividend decision of a Indian firm by using a two-step multivariate procedure. First factor analysis was performed on the data to extract prominent factors from various variables and then multiple regression was conducted on such factors. Results of their factor analysis indicate that leverage, liquidity, profitability, growth and ownership structure are the major factors. Regression on these factors shows leverage and liquidity to be the determinants of the dividend policy for Indian companies (Gupta and Banga, 2010).

Alzomaia and Al-Khadhiri (2013) examine the factors determining dividends represented by *Dividends per share* for non-financial companies listed in the Saudi Arabia Stock Exchanges. They run a regression model and used a panel data covering the period from of 2004 to 2010 for 105 companies. Their model investigates the impact of *Earnings per share* (EPS), Previous Dividends represented by *dividends per share* for last year, Growth, Debt to Equity (D/E) ratio, Beta and Capital Size on Dividends per Share. Their results conclude that Saudi listed non-financial firms rely on current earnings per share and past dividend per share of the company to set their dividend payments (Alzomaia and Al-Khadhiri, 2013).

Wang *et al.* (2011) realized an analysis of the relationship between dividend policy and economic activity in China. They found that both dividend payments and dividend likelihood generally rise and fall with economic activity. Their findings suggest that dividend payments and dividend likelihood are both increasing in the largest shareholder's percentage ownership, although both payment amount and likelihood are increasing at a lower rate when economic growth diminishes (Wang *et al.*, 2011).

Hauser (2013) investigated whether corporate dividend policy changed during the financial crisis. The results of his study show that dividend policy did shift during the financial crisis. The research provides evidence that firms placed additional emphasis on financial viability after the financial crisis (Hauser, 2013).

Also, Boumosleh (2012) investigates the effect of director compensation structure on the riskyness of the firm's investment strategy by examining the firm's dividend payout policy. The results imply that: stock options to outside directors increase the firm's appetite for risk and suggest that director stock options constitute a major incentive to changing corporate policies; director stock options align the risk preferences of managers and directors; stock options do not motivate directors to act opportunistically in setting investment and payout policies (Boumosleh, 2012).

Related to studies developed on Financial Investment Companies, Nobakht *et al*. (2012) consider that evaluating financial performance of the companies and reporting the data and information will provide a chance for the investors to invest accurately and this will result in increasing the competitions in market and consequently society will be develop. They realized a study in Tehran in order to grade the Financial Investment Companies regarding the financial criteria, using nine Financial Investment Companies that has been evaluated and graded for a period from 2008-2009 (Nobakht *et al*., 2012).

There were some studies realized on Romanian Financial Investment Companies: Danescu and Spatacean (2009) mention that conducting financial audit engagements for Financial Investment Companies is based in a significant measure on the conception and performance of analytical procedures that assist the auditor in the process of elaborating general conclusions regarding the performances of the managed portfolios and they realized an analysis of financial statements published by the Financial Investment Companies in the period 2006-2008, the comparison of portfolio performances in correlation with the reported net asset value, as well as the inspection of trading reports issued by the market operator Bucharest Stock Exchange and analysis reports issued by the Romanian Association of Fund Managers (Danescu and Spatacean, 2009); Fărcaş and Manațe (2011) analysed the performance of these companies using main financial ratios (Fărcaş and Manațe, 2011); also, Dima (Cristea) *et al*. (2012) provide a comparative structural analysis of the Romanian Financial Investment Companies' financial statements (Dima (Cristea) *et al*., 2012).

Taking into account these studies, in this paper we propose to realize an analysis of the performance on the financial market of the Financial Investments Companies using some specific indicators of dividend policy. Thus, in the second section is presented the methodology of the study and a short analysis of the dividend policy conducted in the period 2006-2012 by the Romanian Financial Investment Companies, and in the third section are analyzed and interpreted some specific indicators of the dividend policy in the same period 2006-2012, such as: dividend per share, dividend growth rate, dividend distribution rate, dividend yield, earnings per share, price earnings ratio, in order to reflect the performance and the impact of financial crisis on their performance on the financial market.

2. Dividend policy adopted by the Romanian Financial Investment Companies in the period 2006-2012

Dividend policy is based on the decision to pay dividends (Krainer, 2003). This policy shall be established such as to provide stable dividends, but also consider the availability of funds, investment needs and the proportions of profits distributed as dividends, which was established as an objective.

Pursuing the dividend policy of a company in order to highlight its performance achieved over time or to create the possibility of comparison with other competing units is achieved by using a system of indicators. Dividend policy change promoted by company will lead to changing their value up or down, depending on the meaning of the dividend policy change (Toma and Brezeanu, 1996). Each of these indicators mainly expresses certain aspects of achievements in this area. Only the correlated analysis of a number of indicators may occasion some reliable conclusions, each of them separately can not express the complexity of dividend policy pursued by a joint-stock company.

In this study were used financial data collected from the financial annual reports of all five Romanian Financial Investment Companies, in the period 2006-2012. These annual reports are published on the website of these companies. The analysis of dividend policy adopted by these companies is based on the analysis of the evolution of the net profit, payments of dividends and share prices on the financial market.

Table 1 shows the net profit, in thousand lei, of the Romanian Financial Investment Companies (FICs) in the period 2006-2012.

Table 1. Net profit of the Romanian Financial Investment Companies in the period 2006-2012

FIC	2006	2007	2008	2009	2010	2011	2012
FIC 1	83.146,78	122.814,27	95.437,42	112.185,66	62.996,32	63.006,52	100.514,04
FIC 2	48.341,22	65.573,29	93.932,66	101.332,82	96.293,95	192.922,60	137.076,80
FIC 3	53.169,06	110.042,40	94.676,01	116.663,03	66.919,41	207.727,56	212.197,53
FIC 4	71.969,82	86.678,30	89.600,66	82.022,91	71.419,78	65.336,35	127.263,63
FIC 5	78.906,80	106.450,24	87.643,62	187.322,88	80.994,94	83.442,67	88.382,69

Source: Annual financial reports of the companies.

From the table 1 it can be noticed that net profit of the companies had a fluctuating trend during the period analyzed but with an upward trend towards the end of the period under review. The highest increases in the net profit were recorded by FIC 2 and FIC 3, of 2.84 times and respectively 3.99 times in 2012 compared to 2006. The highest increases from one year to another were registered to FIC 3 in 2011 compared to 2010 (by 210.41%), FIC 5 in 2009 compared to 2008 (by 113.73%), FIC 3 in 2007 compared to 2006 (by 106.97%) and FIC 2 in 2011 compared to 2010 (by 100.35%). In 2010, all companies have reduced net profits, with percentages ranging from 56.76% (FIC 5) and 4.97% (FIC 2).

In the analyzed companies, the total dividends of payment, in thousand lei, in the period 2006-2012 are presented in Table 2.

Table 2. Total dividends of payment in the period 2006 – 2012

FIC	2006	2007	2008	2009	2010	2011	2012
FIC 1	32.930,96	38.419,45	16.465,48	27.442,46	56.531,48	54.884,93	-
FIC 2	32.702,64	25.954,48	23.359,03	31.145,38	46.718,06	114.199,71	124.581,50

FIC	2006	2007	2008	2009	2010	2011	2012
FIC 3	34.402,52	40.955,38	32.764,30	32.764,30	32.764,30	186.974,94	191.125,08
FIC 4	56.492,56	56.492,80	32.281,46	32.281,46	65.369,96	65.300,00	108.142,89
FIC 5	40.611,60	45.253,42	34.809,94	92.826,52	43.512,43	74.421,54	75.421,54

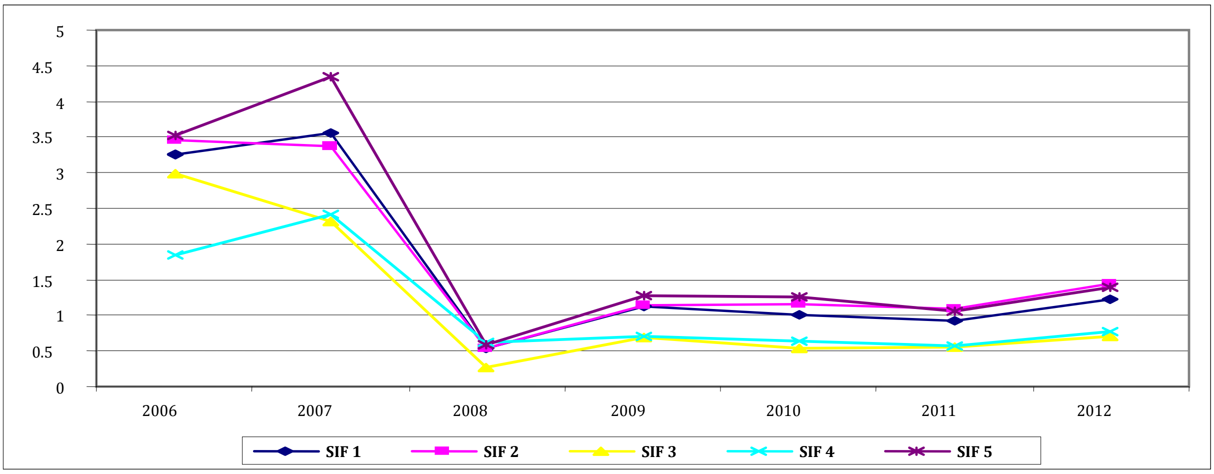
Source: Annual financial reports of the companies.

Investors in shares of investment companies benefited of dividends every year (except FIC 1 in 2012), but their growth rates is modest in the first part of the interval analysed. FIC 3 managed to maintain constant the amount of dividends in 2008-2010, after which registered a spectacular increase by 5.7 times in 2011 compared to 2010 and 5.83 times in 2012 compared to 2010. FIC 4 distributed dividends each year, but the evolution of its value has no regularity during the analysed period. However, a significant increase in the dividend of payment was recorded in 2012 compared to 2011, respectively by 1.66 times.

FIC 5 distributed cash dividends each year, but without that they describe a well-defined trajectory along the analyzed period, with a major oscillation in 2009, respectively an increase of 2.67 times compared to 2008. The dividends distributed in 2009 by FIC 5 are the highest dividends distributed throughout the analyzed period and the highest dividends distributed in that year by FICs due to recording a net profit of 187,322.88 thousands lei. FIC 2 distributed dividends each year, on a downward trend until 2008, followed by a slight increase in 2009 and 2010, with 33.33% and 50% respectively. Between 2011 and 2012, the increases were significant compared to 2010, respectively by 2.44 times and 2.67 times. FIC 1 was most affected by the financial crisis in 2008-2009, this distributing the lowest dividends, and in 2012, General Meeting of Shareholders decided the temporary suspension of dividend payments.

As a result of the dividend distribution policy adopted by Romanian Financial Investment Companies, evolution of the share price has been fluctuating during the period under review, with a downward trend in general (Figure 1). In 2008, the price of all shares decreased with the percentage between 74.27% (FIC 4) and 88.36% (FIC 3), because the impact of the financial crisis. In 2009, the situation has recovered slightly, shares prices increased by percentages ranging from 14.52% (FIC 4) and 151.85% (FIC 3).

Figure 1. Share prices on the financial market in the period 2006-2012



Source: The official website of the Bucharest Stock Exchange, www.bvb.ro.

In 2010, only the share price of FIC 2 increased with 1.75%; to the other companies it dropped with the percentages ranging from 0.79% (FIC 5) and 20% (FIC 3). In 2011, only to FIC 3 the share price increased with 2.94%; to the other companies it dropped with the percentages ranging from 6.03% (FIC 2) and 15.87% (FIC 5). In 2012, the shares price had risen to all companies, with the percentages ranging from 26.79% (FIC 3) and 35.09% (FIC 4). Although dividends distributed have increased over the past two years, however this increase is not reflected in the shares price.

3. Study the specific indicators of dividend policy to the Romanian Financial Investment Companies in the period 2006-2012

Dividend policy is aimed through a series of *specific indicators* (Florea, 1997), among which: the dividend per share, dividend growth rate, dividend distribution rate, the yield per share, earnings per share and the capitalization ratio. The dynamic tracking of these indicators allows us to make conclusions about the company's position in the capital market and their level influence the shareholders' decision to maintain or withdraw of shares in order to invest their capital in other businesses more profitable.

Dividend policy of a company listed on the Bucharest Stock Exchange has always been one of the factors followed by investors and one of the criteria that can make the tie breaker between the companies on the list of purchases and those that are avoided.

Romanian Financial Investment Companies are to be found daily among the most traded shares listed on the Stock Exchange, becoming an emblem for the capital market in Romania. Therefore we considered of great interest, making a study of tracking of dividend policies to these companies by capturing the evolution of a set of indicators in the period 2006-2012, in order to reflect their performance on the financial market and impact of the financial crisis on their performance. All data used in this analysis were taken from the annual financial statements submitted by financial investments companies during the mentioned period.

Dividend per share (DPS) marks the absolute amount that is distributed on a held share, expressing the short-term profitability of the shares pursued with priority by minority investors. It is calculated by dividing the net profit distributed for dividends (Dv) to the number of shares issued by the company (Na): $DPS = \frac{Dv}{Na}$. Typically, a high level of this indicator attracts investors seeking short-term safe gains and which are not followers of risk (Vâlceanu *et al.*, 2005). Financial investment companies sought to distribute every year dividends, since their operation, in order to keep the investors fidelity. In Table 3 are shown the values of the dividend per share to the Financial Investment Companies in the period 2006-2012.

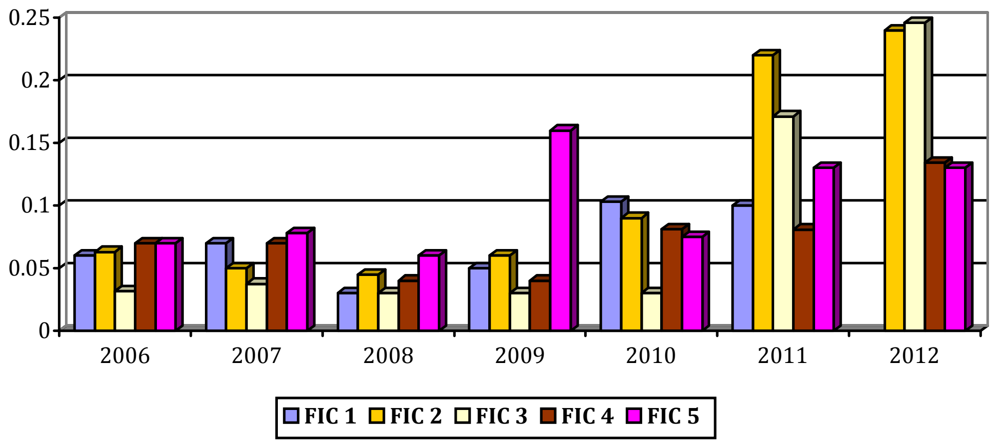
Table 3. *Dividend per share in the period 2006 – 2012*

FIC	2006	2007	2008	2009	2010	2011	2012
FIC 1	0,0600	0,0700	0,0300	0,0500	0,1030	0,1000	-
FIC 2	0,0630	0,0500	0,0450	0,0600	0,0900	0,2200	0,2400
FIC 3	0,0315	0,0375	0,0300	0,0300	0,0300	0,1712	0,2460
FIC 4	0,0700	0,0700	0,0400	0,0400	0,0810	0,0809	0,1340
FIC 5	0,0700	0,0780	0,0600	0,1600	0,0750	0,1300	0,1300

Source: Calculations performed by the author based on data from annual reports.

Although the results for 2010 compared to 2009 decreased due to lower economic activity and the difficult economic environment, there is a better attitude towards shareholders from the management of the companies, which is reflected in the amount of dividends paid. Overall, the FICs gives higher dividends in 2010 compared to 2009, only FIC 5 provides a lower dividend, and FIC 3 grants a dividend similar to that offered in 2009.

Figure 2. *Evolution of dividend per share in the period 2006 – 2012*



Source: Performed by the author.

In 2011 there is a spectacular evolution of the dividend per share to FIC 2 and FIC 3, by 2.44 times and respectively, 5.71 times, a moderate increase of 73.33% to FIC 5 and a slight reduction to FIC 1 and FIC 4, with 2, 91% and 0.12% (figure 2). And in 2012, dividends per share have continued to grow to FIC 2 (with 9.09%), FIC 3 (with 43.69%) and FIC 4 (with 65.64%), to the FIC 5 remained constant and at FIC1 weren't distributed dividends.

The growth rate of dividend per share (g) expresses the evolution of the dividends and is calculated as the ratio between the dividend of the current year (DPS_n) and those of the previous year (DPS_{n-1}):

$g = \frac{DPS_n}{DPS_{n-1}} * 100 - 100$. Table 4 shows the dynamics of the dividend per share distributed by Financial Investment Companies.

Table 4. *Evolution of the growth rate of dividend per share in the period 2006-2012*

FIC	2006	2007	2008	2009	2010	2011	2012
FIC 1	20,00%	16,67%	-57,14%	66,67%	106,00%	-2,91%	-
FIC 2	-5,97%	-20,64%	-10,00%	33,33%	50,00%	144,44%	9,09%
FIC 3	-37,00%	19,08%	-20,00%	0	0	470,67%	43,69%
FIC 4	16,67%	0	-42,86%	0	102,50%	-0,12%	65,64%
FIC 5	16,67%	11,42%	-23,08%	166,67%	-53,13%	73,33%	0

Source: Performed by the author.

The largest decrease of dividends has occurred in 2008, for all investment firms, the capital market being affected by the negative effects of the financial crisis. Analysis of this indicator shows that, although companies distributed dividends each year, their growth rate wasn't constant. Evolution of the growth rate of dividends each year was due to the financial results obtained, the decisions of the General Meeting of Shareholders, the investment policy, and international economic situation. Significant increases in dividend per share can be observed on FIC 2, FIC 3 and FIC 5 in 2011, with growth rates ranging from 73.33% to 470.67% and FIC 2, FIC 3 and FIC 4 in 2012, with growth rates between 9.09% and 65.64%.

The rate of dividends distribution (R_{Dv}) is the part of the net profit which was distributed to shareholders, being calculated as a ratio between dividends paid (Dv) and net profit (Pr_{net}): $R_{Dv} = \frac{Dv}{Pr_{net}} * 100$. This indicator signals the orientation of dividends distribution policy, which is relatively opposite of self-financing policy and inversely proportional with the degree of capitalization.

A high degree of dividends distribution does not necessarily mean in all cases a low self-financing. Also, a big profit conjugated with a reduced distribution rate may lead to a more consistent dividend than in the case of a small profit, to which applies a high distribution rate. In table 5 is presented the evolution of dividends distribution rates of the financial investments companies during 2006-2012.

Table 5. *Evolution of dividends distribution rates in the period 2006-2012*

FIC	2006	2007	2008	2009	2010	2011	2012
FIC 1	39,60%	31,28%	17,25%	24,46%	89,73%	87,11%	-
FIC 2	67,64%	39,57%	24,86%	30,73%	48,51%	59,19%	90,88%
FIC 3	64,70%	37,21%	34,61%	28,08%	48,96%	90,01%	90,07%
FIC 4	78,49%	65,17%	36,02%	39,35%	91,53%	99,94%	84,96%
FIC 5	51,46%	42,51%	39,71%	49,55%	53,72%	90,39%	85,34%

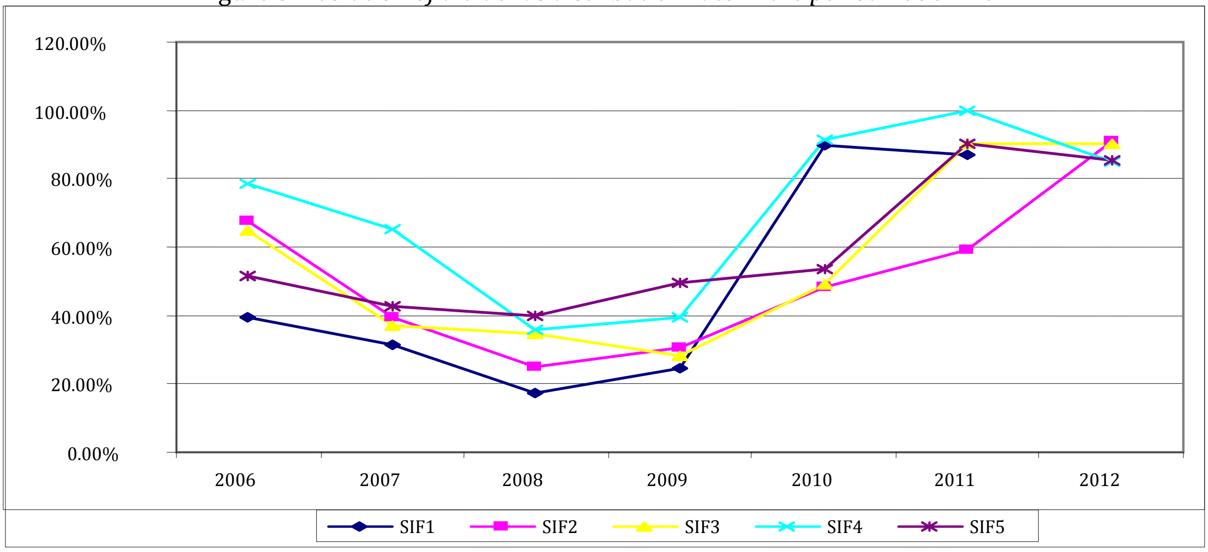
Source: Calculations performed by the author based on data from annual reports.

From the analysis of dividends distribution rates we can observe that in 2008, all financial investments companies pursued a moderate or even low policy of dividends distribution (in the case of FIC 1 and FIC 2). They were influenced by the negative evolutions in the capital market and by the world financial crisis, which have prompted them to retain profits for self-financing. In 2009 there is a slight increase in distribution rate, because of the registration of profits over the expected level.

In 2010, FIC 1 and FIC 4 increase their dividends distribution rates (89.73% and respectively 91.53%) which reflect a strong dividend policy adopted by the companies, according to a diminished self-financing policy. In the short term, a high value of the indicator appears to be attractive to investors, but on long term it doesn't ensure a future development of the business.

The other three FICs maintain their distribution rate at a level of about 50%, which shows that these companies carry out a moderate policy of dividends distribution, establishing a balance between meeting short-term interests of investors and institutional development on medium and long term. So that, a part of the net profit was allocated to create its own sources necessary to investment activity (figure 3).

Figure 3. *Evolution of dividends distribution rate in the period 2006 – 2012*



Source: Performed by the author.

In 2011, with the exception of FIC 2, which had a distribution rate of 59.19%, all other FICs have used a rate of dividends distribution unexpectedly high, ranging from 87.11% (FIC 1) and 99.94 % (FIC 4). In 2012, FIC 1 deferred distribution of dividends and others FICs maintained the high distribution rates recorded in previous years, and ranging between 84.96% (FIC 4) and 90.88% (FIC 2).

Dividend yield (DY) is an indicator with a strong economic expressivity and characterizes the efficiency of the placement in a security by measuring the gain received by shareholders from the investments in the company's shares. This indicator is determined as the ratio between dividend per share (DPS) and the market price of a share (PPA): $DY = \frac{DPS}{PPA} * 100$.

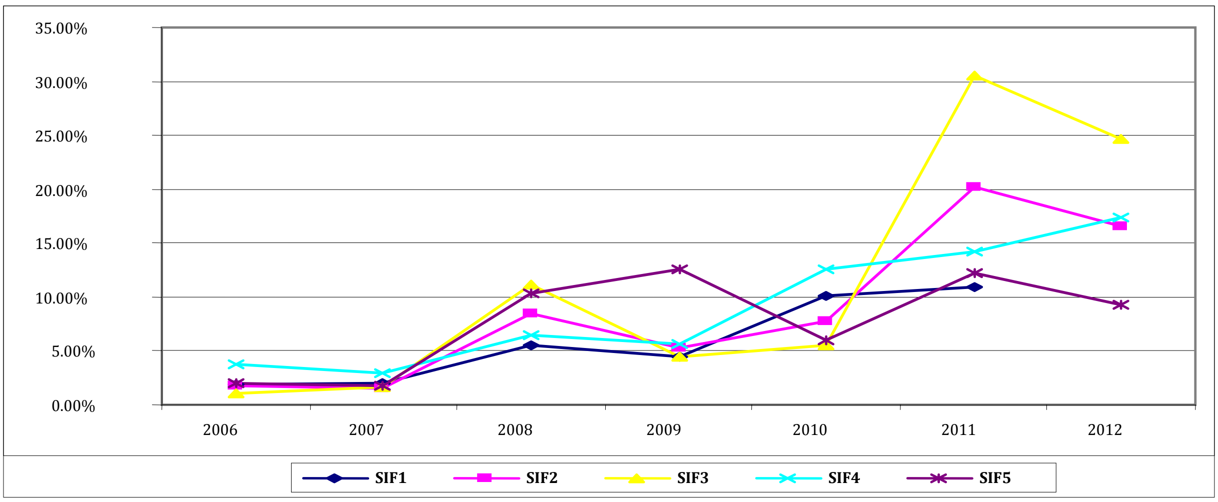
The stability of granting dividends by a company doesn't automatically determine its attractiveness, but depends on the dividend yield. For Romanian Financial Investment Companies, the dividend yield is presented in Table 6.

Table 6. *Dividend yield in the period 2006-2012*

FIC	2006	2007	2008	2009	2010	2011	2012
FIC 1	1,83%	1,96%	5,48%	4,41%	10,15%	10,87%	-
FIC 2	1,81%	1,48%	8,49%	5,25%	7,74%	20,18%	16,55%
FIC 3	1,05%	1,61%	11,11%	4,41%	5,51%	30,57%	24,65%
FIC 4	3,79%	2,90%	6,45%	5,63%	12,57%	14,21%	17,40%
FIC 5	1,98%	1,79%	10,34%	12,59%	5,95%	12,26%	9,29%

Source: Calculations performed by the author based on data from annual reports.

Figure 4: *Evolution of dividend yield in the period 2006 – 2012*



Source: Performed by the author.

In 2006 and 2007, the dividend yield was very low, due to the overvaluation of corporate equity. In 2008 we can observe a sharp increase in yield due to the significant depreciation of the shares price, amid of the unfavourable evolution of the capital market. In 2010, of those 5 Financial Investment Companies, the best dividend yield was offered to shareholders by FIC 4, respectively 12.57% and the lowest yield was offered to shareholders by FIC 3, i.e. 5.51%.

In 2011, all FICs showed high dividend yields between 10.87% (FIC 1) and 30.57% (FIC 3). In 2012, FIC 1 didn't distribute dividends; to FIC 2, FIC 3 and FIC 5 the dividend yield decreased compared to 2011, with percentages ranging from 17.99% (FIC 2) and 24.24% (FIC 5), and only to FIC 4 dividend yield increased with 22.45% (figure 4).

Dividend yield is very important for investors seeking regular income, secure and consistently high (Brătianu and Oprean, 2008). Currently FICs offers a very attractive dividend yield relative to the average dividend yield of 7.45% registered to the market level on the Bucharest Stock Exchange at the end of 2012.

Earning per share (EPS) shows the value of net profit produced by a share during a financial year. This indicator represents the practical enrichment of shareholders during the year because the profit represents also the shareholders wealth, whether it is distributed as a dividend, whether it is capitalized. The indicator doesn't present a cash flow, meaning that the entire benefit isn't distributed as dividend, but is a key element for appreciation of the shares market value. It is calculated as the ratio between net income (Pr_{net}) and number of shares issued (Na): $EPS = \frac{Pr_{net}}{Na}$.

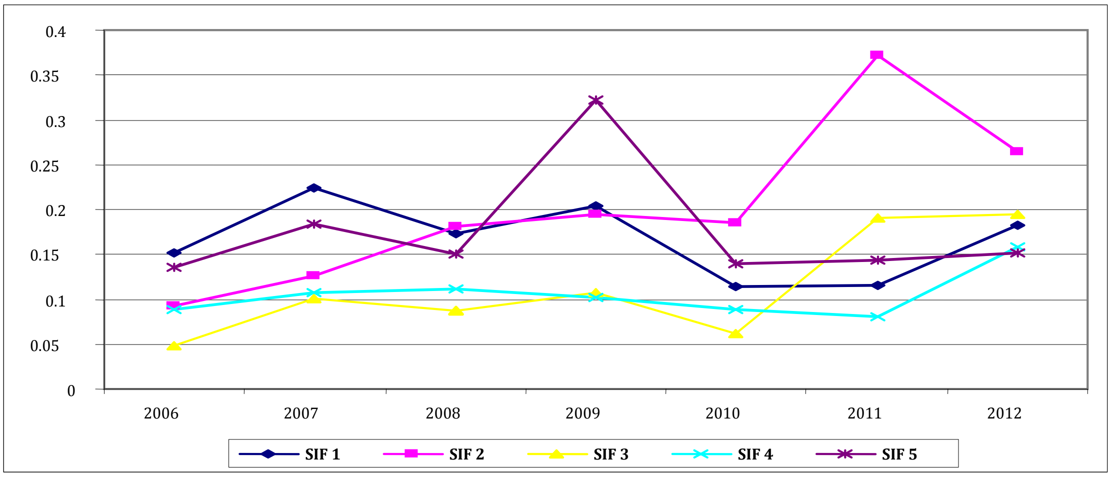
Table 7. *Earning per share in the period 2006-2012*

SIF	2006	2007	2008	2009	2010	2011	2012
FIC 1	0,1514	0,2237	0,1738	0,2044	0,1147	0,1148	0,1831
FIC 2	0,0931	0,1263	0,1809	0,1952	0,1855	0,3720	0,2640
FIC 3	0,0486	0,1007	0,0866	0,1068	0,0612	0,1900	0,1940
FIC 4	0,0891	0,1074	0,1110	0,1016	0,0884	0,0809	0,1580
FIC 5	0,1360	0,1834	0,1510	0,3228	0,1396	0,1438	0,1523

Source: Calculations performed by the author based on data from annual reports.

Figure 5 presents the evolution of earnings per share in RON/share, made by financial investments companies in the analysed period.

Figure 5. *Evolution of earning per share in the period 2006-2012*



Source: Performed by the author.

Analysis of the results from Figure 5 shows that the highest value of the EPS indicator was recorded in 2009 for FIC 5 and FIC 1, mainly due to the level of the profit achieved in that year, while the number of shares remained constant from one period to other. In 2010, FIC 2 proved to be the most profitable company, and as effect, it was recorded the highest profit per share compared to other FICs. Thus, the EPS indicator is intended to have a significant impact on the shares price and therefore an important role in investors' decision making. In 2011, earnings per share increased significantly to FIC 2 and FIC 3, with 100.54% and respectively 210.46%, while to the FIC 5 increased by only 3.01%. In 2012, significant increases in earnings per share was registered to FIC 1 and FIC 4, with 59.49% and respectively 95.30%, while to FIC 5 and FIC 3 increases were only by 5.91 % and 2.11%. Instead, to FIC 2 profit fell by 29.03 % in 2012 compared to 2011.

Capitalization coefficient also called ***price earnings ratio*** (PER) expresses the value of the company based on the number of years of benefit, i.e. in how many years, the investment recovers the market value of its shares without to propose obtaining the actual financial liquidities.

Capitalization coefficient is one of the most publicized indicators for a public company and shows how much investors are willing to pay for a monetary unit of reported profit. It is determined as a ratio between market price of a share (PPA) and earnings per share (EPS): $PER = \frac{PPA}{EPS}$. Table 8 presents the evolution of PER in the case of Financial Investments Companies, reflected graphically in Figure 6.

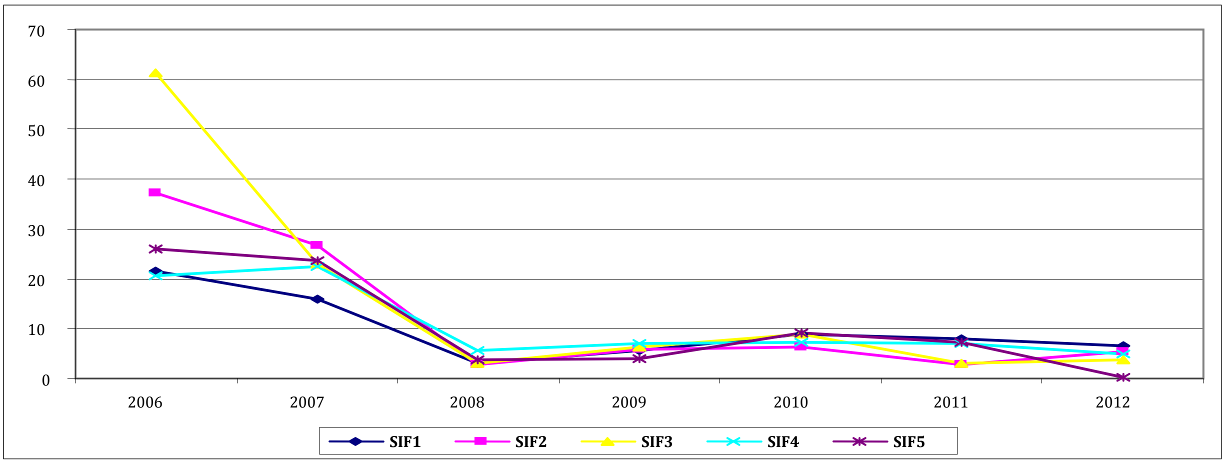
Table 8. *Price earnings ratio in the period 2006-2012*

SIF	2006	2007	2008	2009	2010	2011	2012
FIC 1	21,53	15,86	3,13	5,52	8,84	8,01	6,66
FIC 2	37,16	26,68	2,92	5,84	6,26	2,90	5,49
FIC 3	61,31	23,03	3,11	6,36	8,88	2,99	3,66
FIC 4	20,65	22,43	5,58	6,98	7,28	7,04	4,87
FIC 5	25,95	23,66	3,84	3,93	9,02	7,37	0,19

Source: Calculations performed by the author.

In 2006 and 2007, the PER is high, which indicates that the shares are overrated. After a sharply falling in 2008 due to the negative influences of the financial crisis, in the coming years, after a slight recovery of the financial activity is observed an upward trend of the PER indicator.

Figure 6. *Evolution of the price earnings ratio in the period 2006-2012*



Source: Performed by the author.

PER indicator values in 2010 show that some FICs are relatively undervalued (FIC 2 and FIC 4), so the price will tend to increase for that PER to reach the average and therefore investors are interested to buy, while the remaining companies are evaluated relative fair on the market (FIC 1, FIC 3 and FIC 5 with PER nearly of 9). In the period 2010-2011 PER decreased to all FICs, which again shows an underestimation of the shares price. As a reference, the average PER to Bucharest Stock Exchange was 9.27 at the end of 2012, meaning that are paid on average 9.27 unit price to get a unit of gain.

4. Conclusions

Financial Investment Companies is one of the most powerful and dynamic categories of institutional investors on the local capital market, facilitating the mobilization of the surplus of capital held by investors and its proper placement, for the purpose of capitalising the opportunities offered either by the capital market, either by the money market.

The evolution of those five FICs on the market was largely similar. Even if the price level recorded for each FIC is different and depends into a great extent by the unit value of the net asset, however trends are similar. Investors in FIC shares received dividends every year; their value was influenced by financial results, investment policy and dividend coverage ratio. Dividends growth rate wasn't constant, its evolution being determined by the policy pursued by the company management, by the level of distributed profit, and the world economic situation.

The year 2008 was a turning year in the evolution of firms' activity; the negative effects have reached all sectors and have felt in the value of the indicators. In 2009, they noticed signs of revival of the Romanian capital market, mainly motivated by the extremely low level of financial asset prices, which has spurred investment appetite, FICs managing to obtain profits above expected level.

In 2010 FICs have crossed a less favourable year, determined by the modest liquidity of transactions amid the installed apathy among investors and despite of efforts to diversify the financial instruments offered to investors.

Although the results for 2010 compared to 2009 decreased due to the lower economic activity and the difficult economic environment, there is a better attitude towards shareholders from the companies management, which is reflected in dividends paid. Overall, the FICs gives higher dividends in 2010 compared to 2009, only FIC 5 provides a lower dividend and FIC 3 grants a dividend similar to that offered in 2009.

In this context we can appreciate the dividend policy of FIC 2. This FIC is one of the most active investors in the Stock Exchange, their transactions led to recording the biggest profit compared with other FICs in 2010. Although the profit achieved was above the other FICs, however managers have pursued a moderate policy of dividends distribution. This envisages the financing needs of future investments to ensure the consolidation and development of FIC 2 position in the capital market, so that the ratio between allocations of funds for investments for the establishment of funding sources and distribution of dividends to be optimally balanced. In 2011 and 2012 increased both profits and dividends to all FICs, except FIC 1, the rate of dividends distribution increasing spectacular and with values over 59%.

Besides spectacular yields, FICs provide investors and other important elements: a very good liquidity that allows quick entries and exits, and even speculation, a dividend yield above average of the shares listed on the stock exchange and reasonable volatility. Accordingly, investments in FIC shares can provide major rewards to investors on long-term.

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