MARKET REACTION TO DIVIDEND ANNOUNCEMENTS DURING BEAR AND BULL PERIODS

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By

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ABSTRAK

Pasaran saham dan aktiviti ekonomi bergerak dalam peredaran yang serupa. Hubungan asas ini mempunyai kesan-kesan yang penting. Pertama sekali, ia bukti kukuh harga saham itu bermakna dari segi pembolehubah ekonomi sebenar dan tidak mengikut secara rawak yang dipandu oleh perasaan, atau pengumuman-pengumuman peramal bebas.

Kajian ini mengkaji kesan harga masa singkat pengumuman dividen semasa satu pasaran menurun dan satu pasaran naik. Data yang digunakan di sini dikumpulkan dari tahun 2000 - 2002, tahun selepas krisis kewangan Asia.

Tujuan kajian ini ialah untuk mengetahui perbezaan dalam pulangan luar biasa pengumuman dividen bertikai semasa pasaran menurun dan satu pasaran menaik. Umumnya, tujuan untuk mengetahuinya bagi pelabur-pelabur menghargai dividen-dividen semasa pasaran menurun daripada pasaran menaik dan ini dibuktikan dengan menggunakan ujian statistik. Kajian ini diklasifikasikan sebagai satu kajian kuantitatif dan berkaitan beberapa bentuk analisis statistik. Lantarannya, analisis regresi linear telah digunakan.

Keputusan empirikal dari sokongan kajian ini yang pulangan luar biasa pengumuman dividen semasa pasaran menurun secara positif lebih tinggi daripada yang diisytihar semasa satu pasaran menaik. Maka, pelabur-pelabur kelihatan lebih menghargai dividen-dividen apabila harga saham jatuh. Manakala pulangan luar biasa pengumuman dividen semasa satu pasaran menaik lebih kecil sedikit daripada pasaran menurun mungkin disebabkan oleh peluang pelaburan dengan menggunakan pembiayaan dalaman yang menjurus kepada kos yang lebih murah daripada pembiayaan luar. Keseluruhan hasil ini menyatakan yang pulangan luar biasa semasa pasaran menurun lebih positif dan lebih tinggi sedikit daripada semasa pasaran menaik.

ABSTRACT

The stock market and economic activity move in similar cyclical patterns. This fundamental relationship has important ramifications. Firstly, it is solid evidence that stock prices are meaningful in the sense of reflecting real economic variables and not simply random numbers driven by the psyche, sunspots or the pronouncements of self-appointed seers.

This study examines the short time price effect of dividend announcements during a bear market and a bull market. The data being used here is gathered from the years of 2000 – 2002, the years after the Asian financial crisis in 1998 and from the years of 2005 – 2007 when investors experienced large capital gains all around the world. The data consists of final dividend announcements and intact observations.

The aim of this study is to find out differences in abnormal returns of dividend announcement differ during a bear and a bull market. Generally stated, the aim is to find out do investors value dividends more during a bear market than a bull market and can this be proved by using statistical test. This study is classified as a quantitative study and applies some form of statistical analysis. Therefore, linear regression analysis has been used.

The empirical results from this study support that the abnormal returns of dividend announcements during the bear market were positively higher than those declared during a bull market. Thus, investors seem to value dividends more when stock prices are falling. Whereas abnormal returns of dividend announcement during a bull market are slightly smaller than a bear market may due to the investment opportunities by using internal funding that lead to cheaper cost of financing than external financing. The result overall samples state that the abnormal returns during the bear market were positively and slightly higher than during the bull market.

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BM	-	Bursa Malaysia
KLCI	-	Kuala Lumpur Composite Index
AR	-	Abnormal Return
CAR	-	Cumulative Abnormal Return
CAAR	-	Cumulative Average Abnormal Return
CAPM	-	Capital Asset Pricing Model
APT	-	Arbitrage Pricing Model
MTBV	-	Market to Book Value
EBITDA	-	Earnings before interest, tax, depreciation and amortization
TA	-	Total asset
EBITDA2TA	-	Earnings before interest, tax, depreciation and amortization over total assets

CHAPTER 1: INTRODUCTION

There are two sources of returns from stock: capital gains and dividends. When stock market falls, dividends are the main source of returns. This was the case between the years of 1998 – 2002, following the Asian financial crisis. However, during the last years from 2003, investors all around the world have enjoyed enormous stock returns (see page 28) and they start to believe that they able to make profit through capital gains, while the dividends have received less attention. Investors are assumed to consider dividends more important in a recession. Hence, this paper intends to investigate differences in abnormal return of dividend announcements during a recession (hereafter bear) and a boom (hereafter bull).

Many studies have been done to investigate the relationship between dividend announcements and stock return of a firm. Dividends are payments made to stockholders from a firm's earnings, whether those earnings were generated in the current period or in the previous periods. The amount of dividend paid will affect capital structure. Lower dividends would increase retained earnings; thus lead to an increase in common equity relative to the debt. Hence, the cost of financing would be lower by using retained earnings than issuing the new common equity.

However, in order for dividend announcement to affect the stock returns of the companies, we need to look at the dividend policies that aligned by the companies itself. Dividend announcement is depends on the dividend policy and the firm creates its own

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