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DIVIDEND ANNOUNCEMENT EFFECTS ON MALAYSIAN STOCK MARKET RETURNS

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AUTHOR'S DECLARATION

I declare that the work in this thesis/dissertation was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduates, Universiti Teknologi MARA, regulating the conduct of my study and research.

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ABSTRACT

This study provides empirical evidence on the effects of unexpected dividend changes (UDC) on stock returns with respect to Malaysian economic conditions namely: (1) before the Asian financial crisis (1990-1996); (2) during the Asian financial crisis (1997-1998); (3) after the Asian financial crisis (1999-2007); (4) during the global financial crisis (2008-2010); and for the (5) overall period (1990-2010). The purpose of this study is to identify the exact economic conditions that stimulate investors' reactions to changes in dividends and consequently to the stock price movements. Below and Johnson (1996) found that market reactions to dividend changes varies with respect to bullish and bearish markets respectively. The present study therefore believes the dividend signalling effects varies according to economic conditions. This study made 861 observations which consist of 264 dividend increases, 175 dividend decreases and 422 dividend of no-change for the overall period. The findings of the panel data approach reveals that the unexpected dividend changes are positive and significantly correlated with cumulative abnormal returns in the overall period (1990-2010), during the Asian financial crisis (1997-1998) and after the Asian financial crisis (199-2007). Overall findings constitute support on the dividend signalling theory where an unexpected increase (decrease) in dividends send good (bad) signals to investors leading stock prices to increase (decrease). On the other hand, a cross sectional approach offers similar results only in the period before the Asian financial crisis (1990-1996) and during the Asian financial crisis (1997-1998).

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