THE ANNOUNCEMENT OF INTERIM DIVIDENDS AND ITS EFFECT ON SHARE PRICES

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Abstract

This study is an replicate of a study conducted by Brickley (1983) in which the implication of information signalling is studied. However , this study will only focus on the announcement of interim dividend and its effect on share prices. Only companies which are listed under the Industrials Section of the Kuala Lumpur Stock Exchange will be considered as samples.

Through the analysis of data , it has been ascertained that the announcement of interim dividends did not affect the share prices of the companies. With a consistent investment policy , the dividend policy of a company is not relevant in affecting the share prices of a company.

1.0 INTRODUCTION

The dividend policy of a company greatly affects the company future. Traditionally , it has been the prerogative of the management to decide whether to issue dividends to the shareholders or to retain the profits made by the company for further growth or additional expansion programs. Thus , the most optimal dividends policy will be a balance between shareholders interest in the short term and company growth in the long term.

Dividends policy is also considered important because it will have an effect on future investors investment decisions , for economic analysis , academicians and also the market analyst to interpret the capital market. This raises the question whether dividend policy of a company has a significant effect on the share prices and returns of the shareholders. This study will attempt to determine whether there is any significant effect on the share prices (returns to shareholders) by the announcement of an interim dividend of the company.