

# **STOCK RETURN REACTION TO DIVIDEND**

## **ANNOUNCEMENTS**

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***ABSTRACT***

Dividend policy is one of the important issues in Financial Management. This study examine the effect on share prices when the dividend rates are declared in public. It seems fair to say that there is a wide consensus that dividend announcements can induce positive abnormal stock returns and stock prices.

The dividend announcements effect was highlighted by several foreigners in foreign security markets which revealed the existence of such a phenomenon. However this study focused on dividend announcements effect that occur in the Kuala Lumpur Stock Exchange.

The model and methodology used involved the selection of a sample of companies listed in KLSE. The companies selected were formed according to changes in dividends and earnings for the period 1993 - 1995. The direction of dividends and earnings changes were determined using the naive dividend and earnings expectation models.

The ' market - model ' used was generate by putting the 10 days stock prices of selected companies before and after the announcement date.

The study shows that positive ( negative ) dividend change announcements produce positive ( negative ) common stock price changes. However the presence of large average residuals in the weeks after announcement, contradicts the results carried out elsewhere.

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