Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.
An Examination of Stock Split and Special Dividend Announcements in Relation to Market-Timing Opportunities, Business Cycles, and Monthly Patterns

A thesis presented in fulfilment of the requirements for the degree of Doctor of Philosophy in Finance at Massey University

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ABSTRACT

This dissertation investigates the explanations for the aggregate corporate activities of stock split and special dividend announcements in the United States (US) listed firms between 1926 and 2008. The study is motivated by the limitation of understanding of these two types of events, which have previously only been focused at the firm-specific level. Further, by studying stock splits and special dividends, this research seeks to find an answer to the debate regarding explanations of corporate event waves between neoclassical efficiency reasons and modern market-timing hypothesis. The study is also motivated by the lack of a link between the extensively documented January Effect and Halloween Effect in stock markets and corporate practice. In addition to the contribution of the extended dataset provided in this research, the study has examined corporate decisions to announce stock splits and special dividends from a macro-perspective, especially in relation to market-timing opportunities, economic efficiency reasons, and calendar monthly effects.

Chapter 1 is the introduction of this dissertation. Chapter 2 provides a comprehensive critical literature review on this topic. Chapter 3 is the research framework, hypothesis development, data and methodology used in this research. Chapter 4 is the initial results of the patterns and frequencies for stock split and special dividend announcements. Chapter 5 first investigates whether market conditions and investor sentiment affect the aggregate activities of stock splits and special dividends. These findings indicate that firms time the market to split shares during bull markets with positive and increasing sentiment to achieve higher abnormal returns. On the other hand, special dividend distributions are more likely to happen in bear markets when sentiment decreases. Firms paying special dividends in bear markets are better performers than their counterparts in bull markets. Chapter 6 then examines whether stock split and special dividend activities are driven by the business cycle. Stock splits are more likely to happen in the economic growth stage rather than in the mature stage. On the contrary, firms tend to distribute extra cash dividends to alleviate agency problems in economic declines when profitable investment opportunities are low. Chapter 7 explores the relationship between the patterns of stock splits and special dividend announcements and the calendar anomalies of the January Effect and the Halloween Effect. Firms are more likely to split shares in January and Halloween period than in other months of a year. However, firms have a commonality to pay special dividends to their shareholders in November and December. Lastly, Chapter 8 assesses which macro-determinant has the strongest explanatory power on stock splits and special dividend activities, and the results show that the business
cycle effect is the quantitatively strongest along with all the additional and robustness checks. Chapter 9 is the conclusion and remarks of this dissertation, including future research ideas in the related areas.
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# TABLE OF CONTENTS

ABSTRACT .................................................................................................................. ii

ACKNOWLEDGEMENTS .............................................................................................. iv

TABLE OF CONTENTS ............................................................................................... vi

LIST OF TABLES ........................................................................................................ xii

LIST OF FIGURES ....................................................................................................... xvii

CHAPTER ONE – INTRODUCTION ........................................................................ 1
  1.1 Motivation of the Study .................................................................................... 1
  1.2 Research Objective and Questions .................................................................. 3
  1.3 Significance and Importance ......................................................................... 6
  1.4 Main Findings of the Research ...................................................................... 8
  1.5 Contribution of the Dissertation .................................................................... 12
  1.6 Structure of the Dissertation ......................................................................... 13

CHAPTER TWO – LITERATURE REVIEW .............................................................. 14
  2.1 Background to the Literature ....................................................................... 14
      2.1.1 The Efficient Market Hypothesis (EMH) ........................................... 14
      2.1.2 Anomalies .......................................................................................... 15
      2.1.3 Theories Supporting EMH ................................................................. 16
      2.1.4 Behavioural Finance ......................................................................... 16
      2.1.5 Incomplete Revelation Hypothesis (IRH) ......................................... 18
      2.1.6 Event Studies .................................................................................. 19
  2.2 Stock Splits ..................................................................................................... 20
      2.2.1 Definition of Stock Splits and Classification of Stock Distributions ... 21
      2.2.2 The Market Reaction to Stock Split Announcements ................... 22
          2.2.2.1 Short-Term Reactions ............................................................... 22
          2.2.2.2 Long-Term Reactions .............................................................. 23
      2.2.3 Volatility Changes Subsequent to Stock Split Announcements ... 25
      2.2.4 Reasons for Stock Splits ................................................................... 26
          2.2.4.1 The Signalling Hypothesis ......................................................... 26
          2.2.4.2 The Optimal Trading Range Hypothesis ............................... 29
          2.2.4.3 The Marketability or Liquidity Hypothesis ......................... 29
          2.2.4.4 The Bid-Ask Spread or Broker Promotion Hypothesis ....... 31
2.2.4.5 The Optimal Relative Tick Size Hypothesis ..................................................... 32
2.2.4.6 The Dispersion of Control Theory or Enlarged Clientele Hypothesis .............. 33
2.2.4.7 The Tax-Option Hypothesis .............................................................................. 33
2.2.4.8 The Manipulation Hypothesis ........................................................................... 34

2.3 Special Dividends ........................................................................................................... 35

2.3.1 The Market Reaction to Special Dividend Announcements ................................. 36
2.3.2 Reasons for Special Dividends ................................................................................. 37
2.3.2.1 The Signalling Hypothesis ................................................................................ 37
2.3.2.2 The Free Cash Flow or Excess Funds Hypothesis ............................................ 37
2.3.2.3 The Wealthy Transfer Hypothesis .................................................................... 38
2.3.2.4 The Takeover Deterrence Hypothesis ............................................................... 39
2.3.3 Special Dividends and Share Repurchases ............................................................. 39
2.3.4 The Effect of Tax Cuts on Dividends ...................................................................... 40
2.3.5 The Evolution of Dividends and Patterns of Special Dividends ............................. 41

2.4 Corporate Event Waves .................................................................................................. 42

2.4.1 The Behavioural Hypothesis ................................................................................... 42
2.4.1.1 Investor Sentiment ............................................................................................ 42
2.4.1.2 The Market Driven Theory ............................................................................... 44
2.4.2 The Neoclassical Efficiency Hypothesis ................................................................. 45

2.5 Monthly Patterns ............................................................................................................ 48

2.5.1 The January Effect ................................................................................................... 48
2.5.1.1 The Existence of the January Effect ................................................................. 48
2.5.1.2 The January Effect and Size Anomaly ............................................................... 49
2.5.1.3 Reasons for the January Effect ......................................................................... 50
2.5.1.3.1 The Tax-Loss Selling Hypothesis .............................................................. 50
2.5.1.3.2 The Window-Dressing or Portfolio-Rebalancing Hypothesis ................. 52
2.5.1.3.3 The Parking-the-Proceeds Hypothesis ....................................................... 53
2.5.1.3.4 The Risk-Return Hypothesis ...................................................................... 54
2.5.1.3.5 The Information-Release or Insider-Trading Hypothesis ...................... 55
2.5.2 The Halloween Effect .............................................................................................. 56
2.5.2.1 The Existence of the Halloween Effect ............................................................. 56
2.5.2.2 Reasons for the Halloween Effect ...................................................................... 58
4.1 Patterns of Stock Splits and Special Dividend Announcements ..................................84
4.2 Ratios of Stock Splits ..................................................................................................85
4.3 Frequency and Size of Special Dividends .....................................................................86
4.4 Intra-Industry Effects of Stock Splits and Special Dividends .....................................87
4.5 Descriptive Statistics and Correlation Matrix between Regression Variables ..........89

CHAPTER FIVE – RESULTS AND DISCUSSIONS OF MARKET CONDITIONS ......91

5.1 Stock Split Announcements .......................................................................................91
  5.1.1 Frequency of Stock Splits in Bull and Bear Markets ........................................91
  5.1.2 Likelihood of Occurrence of Stock Splits in Bull Markets ...............................93
  5.1.3 Abnormal Returns of Stock Splits in Bull and Bear Markets .......................95
  5.1.4 Multivariate Regression Results for Abnormal Returns of Stock Splits ........98
  5.1.5 Robustness Check ............................................................................................102

5.2 Special Dividend Announcements .............................................................................103
  5.2.1 Frequency of Special Dividends in Bull and Bear Markets ..........................103
  5.2.2 Likelihood of Occurrence of Special Dividends in Bull Markets ...................103
  5.2.3 Abnormal Returns of Special Dividends in Bull and Bear Markets ..........106
  5.2.4 Multivariate Regression Results for Abnormal Returns of Special Dividends ....109
  5.2.5 Robustness Check ............................................................................................113

5.3 Summary ..................................................................................................................114

CHAPTER SIX – RESULTS AND DISCUSSION OF THE EFFECT OF THE BUSINESS CYCLE ................................................................................................................116

6.1 Stock Split Announcements .......................................................................................116
  6.1.1 Frequency of Stock Splits in Expansions and Contractions ..........................116
  6.1.2 Likelihood of Occurrence of Stock Splits in Economic Expansions .............118
  6.1.3 Abnormal Returns of Stock Splits in Expansions and Contractions .............120
  6.1.4 Multivariate Regression Results for Abnormal Returns of Stock Splits .......123
  6.1.5 Robustness Check ............................................................................................130

6.2 Special Dividend Announcements .............................................................................132
  6.2.1 Frequency of Special Dividends in Expansions and Contractions ...............132
  6.2.2 Likelihood of Occurrence of Special Dividends in Economic Expansions ....133
  6.2.3 Abnormal Returns of Special Dividends in Expansions and Contractions ....135
  6.2.4 Multivariate Regression Results for Abnormal Returns of Special Dividends ....138
6.2.5 Robustness Check

6.3 Summary

CHAPTER SEVEN – RESULTS AND DISCUSSIONS OF MONTHLY PATTERNS

7.1 Stock Split Announcements

7.1.1 The January Effect

7.1.1.1 The Frequency of Stock Splits in Each Month

7.1.1.2 The Likelihood of Stock Splits with the January Dummy

7.1.1.3 Abnormal Returns of Stock Splits in Each Month

7.1.1.4 Multivariate Regression Results of Abnormal Returns on the January Dummy

7.1.1.5 Robustness Check

7.1.2 The Halloween Effect

7.1.2.1 The Frequency of Stock Splits in November-April and May-October

7.1.2.2 The Likelihood of Stock Splits with the Halloween Dummy

7.1.2.3 Abnormal Returns of Stock Splits in November-April and May-October

7.1.2.4 Multivariate Regression Results of Abnormal Returns on the Halloween Dummy

7.1.2.5 Robustness Check

7.2 Special Dividend Announcements

7.2.1 The January Effect

7.2.1.1 The Frequency of Special Dividends in Each Month

7.2.1.2 The Likelihood of Special Dividends with the January Dummy

7.2.1.3 Abnormal Returns of Special Dividends in Each Month

7.2.1.4 Multivariate Regression Results of Abnormal Returns on the January Dummy

7.2.1.5 Robustness Check

7.2.2 The Halloween Effect

7.2.2.1 The Frequency of Special Dividends in November-April and May-October

7.2.2.2 The Likelihood of Special Dividends with the Halloween Dummy

7.2.2.3 Abnormal Returns of Special Dividends in November-April and May-October

7.2.2.4 Multivariate Regression Results of Abnormal Returns on the Halloween Dummy
## LIST OF TABLES

Table 3.1 A Detailed Description of All Variables ................................................................. 67  
Table 4.1 Frequency and Size of Special Dividends between 1926 and 2008 .................. 87  
Table 4.2 Descriptive Statistics of Variables ................................................................. 90  
Table 5.1 Number of Stock Splits in Bull and Bear Markets from 1926 to 2008 ........... 92  
Table 5.2 The Frequency of Stock Split Announcements per month between Bull and Bear Markets – The t-test and non-parameter, Wilcoxon z test .......... 92  
Table 5.3 Logistic Regressions for the Likelihood of Stock Splits from 1926 to 2008 ....... 94  
Table 5.4 Short-Run Excess Returns of Stock Split Announcements in Bull and Bear Markets from 1926 to 2008 .................................................................................................................. 96  
Table 5.5 Long-Term Post-announcement Abnormal Returns Using Monthly Fama-French (1993) and Carhart (1997) Calendar Time Portfolio Regressions for Stock Split Announcements between Bull and Bear Markets from 1926 to 2008 ......................... 97  
Table 5.6 Regression Results between Abnormal Returns of Stock Splits and the Bull Dummy for the period 1926 to 2008 .................................................................................... 99  
Table 5.7 Regression Results between Abnormal Returns of Stock Splits and Investor Sentiment Variables for the period 1960 to 2008 ......................................................... 100  
Table 5.8 Number of Special Dividends in Bull and Bear Markets from 1926 to 2008 ...... 104  
Table 5.9 The Frequency of Special Dividend Announcements per month between Bull and Bear Markets – The t-test and non-parameter, Wilcoxon z test .......... 104  
Table 5.10 Logistic Regressions for the Likelihood of Special Dividends from 1926 to 2008 ................................................................................................................................. 105  
Table 5.11 Short-Run Excess Returns of Special Dividend Announcements in Bull and Bear Markets from 1926 to 2008 .................................................................................................. 107  
Table 5.12 Long-Term Post-announcement Abnormal Returns Using Monthly Fama-French (1993) and Carhart (1997) Calendar Time Portfolio Regressions for Special Dividend Announcements between Bull and Bear Markets from 1926 to 2008 ......................... 108  
Table 5.13 Regression Results between Abnormal Returns of Special Dividends and the Bull Dummy for the period 1926 to 2008 .................................................................................. 110  
Table 5.14 Regression Results between Abnormal Returns of Special Dividends and Investor Sentiment Variables for the period 1960 to 2008 ......................................................... 111  
Table 6.1 Number of Stock Splits in Economic Expansions and Contractions from 1926 to 2008 ................................................................................................................................. 117  
Table 6.2 The Frequency of Stock Split Announcements per month between Economic Expansions and Contractions – The t-test and non-parameter, Wilcoxon z test ........ 118  
Table 6.3 Logistic Regressions for the Likelihood of Stock Splits from 1926 to 2008 ...... 119  
Table 6.4 Short-Run Excess Returns of Stock Split Announcements in Economic Expansions and Contractions from 1926 to 2008 .................................................................................................. 121  
Table 6.5 Long-Term Post-announcement Abnormal Returns Using Monthly Fama-French (1993) and Carhart (1997) Calendar Time Portfolio Regressions for Stock Split Announcements between Economic Expansions and Contractions from 1926 to 2008... 123  
Table 6.6 Regression Results between Abnormal Returns of Stock Splits and the Expansion Dummy for the period 1926 to 2008 .................................................................................. 125
Table 6.7 Regression Results between Abnormal Returns of Stock Splits and Macroeconomic Variables for the period 1926 to 2008 ......................................................... 126
Table 6.8 Regression Results between Abnormal Returns of Stock Splits and general Business Cycle Variables for the period 1926 to 2008 ................................................. 128
Table 6.9 Number of Special Dividends in Economic Expansions and Contractions from 1926 to 2008 .......................................................... 132
Table 6.10 The Frequency of Special Dividend Announcements per month between Economic Expansions and Contractions – The t-test and non-parameter, Wilcoxon z test ................................................................. 133
Table 6.11 Logistic Regressions for the Likelihood of Special Dividends from 1926 to 2008 .......................................................... 134
Table 6.12 Short-Run Excess Returns of Special Dividend Announcements in Economic Expansions and Contractions from 1926 to 2008 ................................................. 136
Table 6.13 Long-Term Post-announcement Abnormal Returns Using Monthly Fama-French (1993) and Carhart (1997) Calendar Time Portfolio Regressions for Special Dividend Announcements between Economic Expansions and Contractions from 1926 to 2008 .... 137
Table 6.14 Regression Results between Abnormal Returns of Special Dividends and the Expansion Dummy for the period 1926 to 2008 .......................................................... 139
Table 6.15 Regression Results between Abnormal Returns of Special Dividends and Macroeconomic Variables for the period 1926 to 2008 .......................................................... 140
Table 6.16 Regression Results between Abnormal Returns of Special Dividends and general Business Cycle Variables for the period 1926 to 2008 .......................................................... 143
Table 7.1 Number of Stock Splits in each month between 1926 and 2008 ........................................................................ 148
Table 7.2 The Frequency of Stock Split Announcements in each month between 1926 and 2008 – The t-test and non-parameter, Wilcoxon z test .................................................................................. 149
Table 7.3 Logistic Regressions for the Likelihood of Stock Splits from 1926 to 2008 ........................................................................ 149
Table 7.4 Value-Weighted Market Model Adjusted Returns for Stock Split Announcements in Each Month for the period 1926 to 2008 ........................................................................ 151
Table 7.5 Long-Term Post-announcement Abnormal Returns Using Monthly Fama-French (1993) and Carhart (1997) Calendar Time Portfolio Regressions for Stock Split Announcements in Each Month from 1926 to 2008 ........................................................................ 152
Table 7.6 Regression Results between Abnormal Returns of Stock Splits and the January Dummy for the period 1926 to 2008 ........................................................................ 154
Table 7.7 Number of Stock Splits between November-April and May-October from 1926 to 2008 ........................................................................ 156
Table 7.8 The Frequency of Stock Split Announcements between November-April and May-October – The t-test and non-parameter, Wilcoxon z test ........................................................................ 156
Table 7.9 Logistic Regressions for the Likelihood of Stock Splits from 1926 to 2008 ........................................................................ 158
Table 7.10 Short-Run Excess Returns of Stock Split Announcements between November-April and May-October from 1926 to 2008 ........................................................................ 159
Table 7.11 Long-Term Post-announcement Abnormal Returns Using Monthly Fama-French (1993) and Carhart (1997) Calendar Time Portfolio Regressions for Stock Split Announcements between November-April and May-October from 1926 to 2008 ........................................................................ 160
Table 7.12 Regression Results between Abnormal Returns of Stock Splits and the Halloween Dummy for the period 1926 to 2008 ................................................................. 162
Table 7.13 Number of Special Dividends in each month between 1926 and 2008 ....... 166
Table 7.14 The Frequency of Special Dividend Announcements in each month between 1926 and 2008 – The t-test and non-parameter, Wilcoxon z test ...................... 166
Table 7.15 Logistic Regressions for the Likelihood of Special Dividends from 1926 to 2008 .............................................................................................................. 167
Table 7.16 Value-Weighted Market Model Adjusted Returns for Special Dividend Announcements in Each Month for the period 1926 to 2008 ........................................ 168
Table 7.17 Long-Term Post-announcement Abnormal Returns Using Monthly Fama-French (1993) and Carhart (1997) Calendar Time Portfolio Regressions for Special Dividend Announcements in Each Month from 1926 to 2008 .................. 170
Table 7.18 Regression Results between Abnormal Returns of Special Dividends and the January Dummy for the period 1926 to 2008 ...................................................... 172
Table 7.19 Number of Special Dividends between November-April and May-October from 1926 to 2008 .................................................................................................... 173
Table 7.20 The Frequency of Special Dividend Announcements between November-April and May-October – The t-test and non-parameter, Wilcoxon z test .................. 174
Table 7.21 Logistic Regressions for the Likelihood of Special Dividends from 1926 to 2008 .............................................................................................................. 175
Table 7.22 Short-Run Excess Returns of Special Dividend Announcements between November-April and May-October from 1926 to 2008 ........................................... 176
Table 7.23 Long-Term Post-announcement Abnormal Returns Using Monthly Fama-French (1993) and Carhart (1997) Calendar Time Portfolio Regressions for Special Dividend Announcements between November-April and May-October from 1926 to 2008 .......... 177
Table 7.24 Regression Results between Abnormal Returns of Special Dividends and the Halloween Dummy for the period 1926 to 2008 ...................................................... 179
Table 8.1 The Dominant Dummy Variable for the Likelihood of Stock Splits from 1926 to 2008 .............................................................................................................. 184
Table 8.2 The Dominant Macro-Determinant for the Likelihood of Stock Splits from 1960 to 2008 .............................................................................................................. 185
Table 8.3 The Dominant Dummy Variable for the Likelihood of Special Dividends from 1926 to 2008 .............................................................................................................. 186
Table 8.4 The Dominant Macro-Determinant for the Likelihood of Special Dividends from 1960 to 2008 .............................................................................................................. 188
Table 8.5 The Dominant Dummy Variable for the Abnormal Returns of Stock Splits between 1926 and 2008 .............................................................................................................. 190
Table 8.6 The Dominant Macro-Determinant for the Abnormal Returns of Stock Splits between 1960 and 2008 .............................................................................................................. 191
Table 8.7 The Dominant Dummy Variable for the Abnormal Returns of Special Dividends between 1926 and 2008 .............................................................................................................. 195
Table 8.8 The Dominant Macro-Determinant for the Abnormal Returns of Special Dividends between 1960 and 2008 .............................................................................................................. 196
Appendix 1A Number of Stock Splits from 1926 to 2008 .................................................... 225
Appendix 1B Number of Special Dividends from 1926 to 2008 ........................................... 225
Appendix 1C Number of Stock Splits in Different Split Ratios between 1926 and 2008 .... 225
Appendix 2A Intra-Industry Effects of Stock Split Announcements from 1926 to 2008 .... 226
Appendix 2B Intra-Industry Effect of Special Dividend Announcements from 1926 to 2008 ............................................................................................................................................ 228
Appendix 3 Correlation Matrix between Variables ............................................................ 230
Appendix 4A Abnormal Returns of Stock Splits between Bull and Bear Markets in different Sub-periods, Industries and Sizes ............................................................................................................................................ 234
Appendix 4B Regressions for Event Returns of Stock Splits on Bull Dummy in Sub-periods ............................................................................................................................................ 235
Appendix 4C Regressions for Event Returns of Stock Splits on Sentiment Variables in Sub-periods ............................................................................................................................................ 236
Appendix 5A Abnormal Returns of Special Dividends between Bull and Bear Markets in different Sub-periods, Industries and Sizes ............................................................................................................................................ 237
Appendix 5B Regressions for Event Returns of Special Dividends on Bull Dummy in Sub-periods ............................................................................................................................................ 238
Appendix 5C Regressions for Returns of Special Dividends on Sentiment Variables in Sub-periods ............................................................................................................................................ 239
Appendix 6A Abnormal Returns of Stock Splits between Economic Expansions and Contractions in different Sub-periods, Industries and Sizes ......................................................... 240
Appendix 6B Regressions for Event Returns of Stock Splits on Expansion Dummy in Sub-periods ............................................................................................................................................ 241
Appendix 6C Regressions for Event Returns of Stock Splits on Macroeconomic Variables in Sub-periods ............................................................................................................................................ 242
Appendix 6D Regressions for Event Returns of Stock Splits on Business Cycle Variables in Sub-periods ............................................................................................................................................ 243
Appendix 7A Abnormal Returns of Special Dividends between Economic Expansions and Contractions in different Sub-periods, Industries and Sizes ......................................................... 244
Appendix 7B Regressions for Event Returns of Special Dividends on Expansion Dummy in Sub-periods ............................................................................................................................................ 245
Appendix 7C Regressions for Returns of Special Dividends on Macroeconomic Variables in Sub-periods ............................................................................................................................................ 246
Appendix 7D Regressions for Returns of Special Dividends on Business Cycle Variables in Sub-periods ............................................................................................................................................ 247
Appendix 8A Mean Adjusted Returns for Stock Split Announcements in Each Month for the period 1926 to 2008 ............................................................................................................................................ 248
Appendix 8B Equal-weighted Market Adjusted Returns for Stock Split Announcements in Each Month for the period 1926 to 2008 ............................................................................................................................................ 249
Appendix 8C Value-weighted Market Adjusted Returns for Stock Split Announcements in Each Month for the period 1926 to 2008 ............................................................................................................................................ 250
Appendix 8D Equal-weighted Market Model Adjusted Returns for Stock Split Announcements in Each Month for the period 1926 to 2008 ............................................................................................................................................ 251
Appendix 8F Abnormal Returns of Stock Splits between January and February-December in different Sub-periods, Industries and Sizes ........................................................................ 254
Appendix 8G Regressions for Event Returns of Stock Splits on January Dummy in Sub-periods .......................................................................................................................... 255
Appendix 9A Abnormal Returns of Stock Splits between November-April and May-October in different Sub-periods, Industries and Sizes ........................................................................ 256
Appendix 9B Regressions for Event Returns of Stock Splits on Halloween Dummy in Sub-periods .......................................................................................................................... 257
Appendix 10A Mean Adjusted Returns for Special Dividend Announcements in Each Month for the period 1926 to 2008 ................................................................................................ 259
Appendix 10B Equal-weighted Market Adjusted Returns for Special Dividend Announcements in Each Month for the period 1926 to 2008 ................................................................. 260
Appendix 10C Value-weighted Market Adjusted Returns for Special Dividend Announcements in Each Month for the period 1926 to 2008 ................................................................................ 261
Appendix 10D Equal-weighted Market Model Adjusted Returns for Special Dividend Announcements in Each Month for the period 1926 to 2008 ............................................................. 262
Appendix 10E Long-Term Post-announcement Abnormal Returns Using Monthly Fama-French (1993) and Carhart (1997) Calendar Time Portfolio Regressions for Special Dividend Announcements in Each Month from 1926 to 2008 ........................................................................ 263
Appendix 10F Abnormal Returns of Special Dividends between January and February-December in different Sub-periods, Industries and Sizes ........................................................................ 265
Appendix 10G Regressions for Event Returns of Special Dividends on January Dummy in Sub-periods .......................................................................................................................... 266
Appendix 11A Abnormal Returns of Special Dividends between November-April and May-October in different Sub-periods, Industries and Sizes ........................................................................ 267
Appendix 11B Regressions for Event Returns of Special Dividends on Halloween Dummy in Sub-periods .......................................................................................................................... 268
Appendix 12A The Dominant Macro-Determinant for the Likelihood of Stock Splits with the Composite Sentiment Index and Additional Accounting Variables from 1960 to 2008 ........................................................................ 270
Appendix 12B The Dominant Macro-Determinant for the Abnormal Returns of Stock Splits with the Composite Sentiment Index and Additional Accounting Variables from 1960 to 2008 ........................................................................ 271
Appendix 13A The Dominant Macro-Determinant for the Likelihood of Special Dividends with the Composite Sentiment Index and Additional Accounting Variables from 1960 to 2008 ........................................................................ 275
Appendix 13B The Dominant Macro-Determinant for the Abnormal Returns of Special Dividends with the Composite Sentiment Index and Additional Accounting Variables from 1960 to 2008 ........................................................................ 276
LIST OF FIGURES

Figure 4.1 Numbers of Stock Split Announcements in the period 1926 to 2008 .....................84
Figure 4.2 Numbers of Special Dividend Announcements from 1926 to 2008 .....................85
Figure 7.1 Numbers of Stock Splits in each month from 1926 to 2008 .............................148
Figure 7.2 Numbers of Stock Splits between November-April and May-October from 1926 to 2008 ....................................................................................................................................156
Figure 7.3 Numbers of Total Special Dividends (Code 1262 & 1272) in each month from 1926 to 2008 .................................................................................................................................................166
Figure 7.4 Numbers of Ordinary Cash Dividends in each month from 1926 to 2008 ...........166
Figure 7.5 Numbers of Extra/Special Dividends with code 1272 in each month from 1926 to 2008 .................................................................................................................................................166
Figure 7.6 Numbers of Year-end Special Dividends with code 1262 in each month from 1926 to 2008 .................................................................................................................................................166
Figure 7.7 Numbers of Special Dividends between November-April and May-October from 1926 to 2008 .................................................................................................................................................174