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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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2012

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.

ACKNOWLEDGEMENTS

Undertaking a PhD has definitely improved my research skill, but also shaped me as a person and led me to where I am now. First, I would like to thank my supervisors, Professor Martin Young and Dr. Chris Malone for their guidance, encouragement, frankness, and help throughout my PhD journey. Without them my life would be different and I would be a different person. Thank you very much for teaching me the academic world and enlightening me to a future full of hope.

I would also like to thank Professor Minsoo Lee for helping me to get a PhD scholarship. I thank Professor Ghon Rhee, Professor Reena Aggarwal, Professor Richard Roll, Professor Bruce Grundy and Professor Jay Ritter for their great comments on my PhD and future journal submissions. Thanks also to Professor Fei Wu for the opportunity to write a book chapter with him and Dr. Jing Chi for all the teaching opportunities and supports she has given to me.

I thank Koli Sewabu, Jason Auvaa, Gerald Lologa, Bex Reidy and the Massey Manawatu RA team for giving me happiness, love, care, understanding, and support outside of the office. It was one of my best choices to be a RA while doing a PhD. I thank Jenny and Terry McGrath, Nane and Seti Chen for all the nice meals you provided to me so many times. Thanks to ChinLui Foo for his love, understanding, and support from the beginning of my PhD in Massey.

It is my blessing to meet all these wonderful people and my pleasure to share doctoral studies and life with the amazing officemates, Azira Abdul Adzis, Jingjing Yang, and Saqib Sharif. All the best for our studies and future careers. I would also like to thank Fong Mee Chin, Jing Liao, everyone in the School of Economics and Finance at Massey University and everyone who has supported and helped me in any respect during the completion of this dissertation. I offer my regards and blessings to all those people. I thank Julia Rayner and Shalini Watson for their help with the proof reading of this thesis.

Thanks to my family, my mother Yuzhen Ren and father Zhenhuan Hu who have provided endless love, support, and patience especially at the peak of my stress and depressions. Thanks to my great grandma, Suzhen Guo who brought me up and died in the beginning of this year and my great grandpa, Tiancheng Yu; the memory of them has only increased after their death. A big thank you to my dear boyfriend, Mataiasi Tu'ilautala, no words can specify

what he has done for me. Without him it would have been much harder to finish the PhD, learning to love him and to receive his love makes me a better person.

Last but certainly not least, the greatest thank to the universal Lord, my God, Jesus Christ, all the glory belongs to him.

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