THE IMPACT OF DIVIDEND AND ITS CHANGES ON STOCK RETURNS

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The Malaysia stock market is generally speculative and sentiment driven. This study aims to investigate whether there can be any form of measurement tools which may be used by investors or to rely upon in making their investment decision.

This study has used dividend as variable to examine the impact on stock holding period returns. The finding of this study has been unable to establish that the absolute dividend can be used as a predictive power to establish stock holding period returns. There appears to be no relationship between current absolute dividends with current holding period returns as this relationship was found to be not significant. The changes in dividend and the conditional changes in dividend were found to be insignificant in this relationship on stock holding period returns and this indicates that they have no impact on stock holding period returns.

Coefficients of some dummy variables are significant. This indicates that changes in stock price plays a significant role in determining stock holding period of returns.

In order to provide a more consistent and more accurate information and insight to the study, it is suggested that other determinants be included in the model and that the sample size and the study period be increased.

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INTRODUCTION

Companies are perennially faced with the decision as to how much of earnings to pay out as dividends and how much to retain for reinvestment in the companies. This decision is commonly known as "dividend policy" of the company. This paper attempts to determine the impact of dividends on stock prices of companies listed on Bursa Malaysia and will attempt to ascertain whether a certain dividend policy of a company has any influence on stock returns.

There are a few theories on dividend policy propounded by economists – the dividend signaling theory, the dividend irrelevance theory, the bird-in-hand theory and the clientele effect theory. All these theories relate to perceptions of investors on dividends pay out by companies. In the first two theories, dividends are not important or are irrelevant to the investors whose main concern is capital gains whereas the last two theories espouse the significance of dividends for the investors.

In the dividend signaling theory, investors do not care about how much dividends are being paid; instead, they are concerned about changes in a company's dividend policy. Investors consider changes in dividend policy as signals from the management to convey the future prospects of that company. If the management increases the dividend payout, this is an optimistic sign, whereas if there is a cut in dividend payment, this