STOCK SPLIT AND ITS IMPACT UNDER BEARISH CONDITION: AN EMPIRICAL STUDY ON THE INDONESIAN STOCK MARKET

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บทคัดย่อ

งานวิจัยนี้ ศึกษาผลกระทบจากการแตกหุ้น (Stock split) ในสภาวะที่ตลาดหุ้นซบเซาหรือระหว่างวิกฤตทางเศรษฐกิจ การแตกหุ้น มักทำให้เกิดปัญหาสภาพคล่องและผลประกอบการ งานวิจัยนี้พิสูจน์ให้เห็นว่าการแตกหุ้นก่อให้เกิดผลดีต่อกิจการ ทฤษฎีหลักที่ใช้ในงานวิจัยนี้คือ ทฤษฎีการส่งสัญญาณตลาด และ ช่วงราคาซื้อขายหลักทรัพย์ ข้อมูลที่ใช้ศึกษาได้มาจาก ตลาดหุ้นอินโดนีเซียระหว่างปี 1997 - 1999

Abstract

This paper presents the impact of stock split in bearish condition or when the economy was hit by the crisis. When stock split is taken, the liquidity and abnormal return are the vital subjects to be explored further since the conclusion of those matters are still under discussion. This study proves that stock split can be valuable. The signaling theory and trading range theory are the principal theories to be addressed. This study was taken from Indonesian Stock Exchange in mid-1997 up to 1999.

INTRODUCTION

Generally stock split is issued in order to improve the level of liquidity because companies have seen their stock prices to the levels that are too high or out of the price level of similar companies in their sector (Fama, Fisher, Jensen & Roll, 1969; Lamoureux & Poon, 1987; Conroy, Harris, & Benet, 1990.) Illiquidity is the problem when the stock price starts to move up and becomes “expensive” for the investors. Most researchers state that the stock split is one indicator of bullish situation (Ader & Diamant, 2006; Nugraha, 2004); however, it does not mean that the stock split cannot be done in bearish markets. The only difference is on the likelihood of successful increased liquidity. This means the possibility of increased liquidity in the bull market is better than in the bear market (Nugraha, 2004).

Liquidity was a significant factor during the financial crisis in Indonesia in 1997. It all started when it was found that many Indonesian investors owed a large amount of dollars. Indonesia did not have a sound banking system which worsened the previous condition and to top it off, citizens lacked confidence in their government system. Such predicaments caused the country to experience the rampant contagious effects of the financial crisis. The Rupiah was down more than 200% because of a great demand for the U.S dollar. Liquidity became the big problem faced by many institutions and investors at that time.

Figure 1 shows that during mid-1997 to 1999, the stock split events in Indonesian stock exchange was peculiar as compared to neighboring countries (Philippines, Malaysia, Thailand and Singapore). The tendency to decline was obvious and sharp. This condition most likely happened because of the previous extreme increase that occurred before 1997. The economic growth in 1995 until mid-1997 created very sharp increases and when Indonesia was hit by the crisis, a super decline could not be avoided.

The study done by Grinblatt, Masulis & Titman (1984) has shown that the stock split is an important economic event and has generated anomalous return that does not happen only on the date of the announcement, but also on the ex-date. They found