A STUDY OF PRICE-CHANGED-TO-DIVIDEND RATIO ON EX-DIVIDEND DATES: THE CASE STUDY OF STOCK EXCHANGE OF THAILAND IN 2012-2014

[1] Rapeepat Techakittiroj

Abstract: *Most of studies had a similar conclusion that the average stock prices on ex-dividend dates tend to be declined according to the corresponding amount of dividend even though it is the Book Value, BV, which is declined by the amount of dividend. As many stock traders did not achieve their results based on this conclusion, the research methodology was repeated to assert the myth. Because none of researches were based on data from the Stock Exchange of Thailand, the research methodology was repeated, only on cash dividends, for years of 2012-2014. Finally, the results were compared with the previous study and test on their difference among industries and years. The result showed that the ratio of different countries, e.g. United States, Japan and Thailand are not the same. However, the result showed no different among industries and years.*

Keywords*: Cash Dividend, Ex-Dividend Date, Stock Price, Thailand.*

1. INTRODUCTION

Cash dividend is one of major concerned in stock trading decisions. As many stock traders performance relied on the relationship between the average stocks price drop-off on the ex-dividend date and the amount of the dividend, the research methodology was performed to assert that.

Campbell & Berarek (1955) found that the average stock price tended to be declined about 90 percent of the amount of the dividend on their ex-dividend dates. Finnerty (1981) presents empirical evidence that lends strong support to the buying-the-dividend hypothesis for electric utility common stocks. In reviewing all of Boyd and Jagannathan (1994) result, it is striking that, at the margin, percentage price drop is almost exactly equal to dividend yield. This result was obtained in a number of different tests-the only significant exception being those tests after negotiated commission rates and with low dividend yield data points excluded. Kato and Loewenstein (1995) calculate the price-changed-to-dividend ratio on the ex-day.

Campbell & Berarek (1955) stated that traders in a 25 percent tax bracket would find equal advantage in trades before and after an ex-dividend date if the price drop-off were 75 to 85 percent of the dividend, while those in a 50 percent bracket would find equal advantage if the drop-off were 50 percent to 66 2/3 percent. This suggests that a fully rational market might make the drop-off between 65 and 75 percent of the dividend-taking into account a market composed of high-bracket individuals, low-bracket individuals, and all manner of corporations, institutions, and fiduciaries. On balance, a tax-paying individual will do better to sell before an ex-dividend date but to buy after it. For a tax-exempt institution, the rule is exactly the reverse.

Finnerty (1981) shown that the relatively high yields that electric utility common stocks afford are attractive to two classes of investors but for different reasons. First, taxable institutions that can claim the 85% dividends received deduction buy electric utility common stocks before the ex-dividend date, hold them long enough to

[1,] Graduate School of Business, Assumption UniversityHua Mak, Bangkok, Thailand 10260
Email: [1]RapeepatTch@au.edu