

ABSTRACT

Stock split and its impact on liquidity and abnormal return are still interesting to be explored. The inconclusive result about liquidity that occurred around the issued stock split becomes an interesting hypothesis to be proven. In according to the reality in Indonesia, the number of issuance is not only high when in proper condition but also when the economic was hit by the crisis. The typical of the issuance movement in critical condition is different from apt condition according to other countries (Malaysia, Philippine, Singapore and Thailand). In the critical condition, the tendencies of the issuance were declining sharply than other countries and the fact has shown that, the number of issuance in Indonesia was the highest compares to Malaysia, Philippine, Singapore and Thailand in two different conditions.

Usually, liquidity problems occur when the economy is in bearish conditions; and in contrary the stock split is one of the indicators of bullish situation. Though, it does not mean that the stock split can not be issued in bearish markets. This research paper explores the impact of stock split in two different conditions, which are; bearish and bullish. Through particular time frame and six windows, this paper has discovered that, the issuance of stock split in different conditions have different motivations. This motivation referred to the Signaling Theory or Trading Range Theory.

This paper revealed that stock split helps improve liquidity not only in bullish condition but also in bearish condition. The impact of stock split occurred in different period of observation for different condition of macro economic. This paper also finds that the abnormal return can be explained significantly by the change in return variance in different condition especially in Ex-date period.

Keywords : Stock split, bear market, bull market, liquidity, abnormal return.

