ABSTRACT

Since the dividend is one of the determinants of shareholder's stock return, this research was designed to investigate whether the announcement of a dividend change affects stock return under different market conditions. Therefore, research hypotheses are constructed to study the association between dividend change and stock return based on different market conditions of bull market and bear market.

This research uses the standard event study method to examine the abnormal returns resulting from dividend change under different market condition and t-test to test significance of the constructed hypotheses. The data employed in the study are gathered on publicly traded companies, which announced dividend changes in bull market and bear market of 1993 and 1997, respectively. 116 dividend change announcements were taken in the bull market and 112 dividend change announcements of firms were taken in the bear market.

The analysis of the data indicates that, in bull market, there is no significant relationship between dividend change and stock return. This is consistent with the dividend irrelevant theory that investors are indifferent to dividend change. Besides, there is significantly negative association between dividend change and stock return in the bear market, implying that investors are pessimistic to dividend change. The empirical findings suggest that to increase shareholders' wealth the management should focus on investment on assets in the bull market and should keep stability of dividend policy in order to avoid negative consequence on firm's equity value in the bear market.