CHAPTER 6: CONCLUSION

6.1 SUMMARY

The results show that there is significant positive return before and after the announcement date. For the all-bonus study, there is a positive increase in the CAR from day –10 onwards, a further increase after the announcement date and then a decline after day +2. This study is consistent with that of Neoh [1986] (for the KLSE) and Ariff [1990] (for the SES) although the period is different.

The study by Neoh and Ariff was done during good economic conditions. However this current study period from 1997 to 2001 was done during and after the Asian financial crisis.

The results however show that the Kuala Lumpur Stock Exchange is not consistent with the semi-strong form of Efficient Market Hypothesis in treating the announcement of the bonus issue.

However, for the various distribution ratios of the bonus issues, this study revealed that the market reacts more positively to bonus issues of higher distribution ratios than to bonus issues of lower distribution ratios, on the announcement event.

The post-announcement positive response may be attributed to the investors perceiving different values of the companies announcing higher distribution ratios of bonus issues than to those companies announcing lower distribution ratios of bonus issues. The market may expect higher earnings and profits for the subsequent years for companies announcing higher distribution ratios than for those companies announcing lower distribution ratios.

For the ex-bonus date effect, the results also show that there is positive return before and after the ex-date. For the all-bonus study, there is a positive increase in the CAR from day –25 onwards, a spike on ex-date and then

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immediately a gradual decline after that. The huge CAR increase on ex-date could be due to the stock's price suddenly becoming so affordable that investors flock to buy up the shares thus pushing the price up or some investors may not be aware of the ex-date decided to buy more shares. The spike on ex-date is certainly a very interesting phenomenon.

The results also showed that the Kuala Lumpur Stock Exchange is not consistent with the semi-strong form of Efficient Market Hypothesis in treating the ex-date of the bonus issue.

Similarly, for the various distribution ratios of the bonus issues, this study revealed that the market reacts more positively to bonus issues of higher distribution ratios than to bonus issues of lower distribution ratios, on the ex-date event.

The different and post ex-date positive response may be attributed to the affordability and liquidity reasoning. Higher distribution ratios will bring the absolute price of the stock to a much lower level and will flood the market with more shares enabling more investors to purchase the stock.

Given the market is not efficient in the semi-strong form, it is possible to work out some short term trading rules and expect some abnormal returns. Deriving from our study, the best way to take advantage of this abnormal price behaviour around the announcement period seems to be to buy stocks when one gets market predictions on impending bonus issues at about 5 weeks before the expected announcement date and sell them 2 days after the actual announcement. Trade in stocks which is expected to offer higher bonus distribution ratio.

To take advantage of the inefficient price adjustment mechanism when the stock goes ex-bonus, the best trading rule is to buy the stocks around 6 weeks before ex-date and then sell them on the ex-date itself. Again trade in stocks which offer higher bonus distribution ratio.

However, there is a word of caution on these suggestions, these trading strategies which may help the investors to reap abnormal gains may not work if the pattern of price behavior or the level of market efficiency changes. Also past price performance does not guarantee similar future price performance.

Ultimately we would still have to fall back on stock fundamentals. A fundamentally weak stock will not become any more attractive solely on a bonus issue. Ultimately it is stock fundamentals which investors should focus on. While a bonus issue can be attractive to a fundamentally good stock, but does not do much for a weak company.

6.2 LIMITATIONS OF STUDY

There are several limitations that restrict the potential of this study.

i) The limitation of the sample size and study period of the various distribution groups. The samples were drawn from the period January 1997 through to December 2001. A greater coverage of years will lead to more concrete base and more groups of distribution ratios can be studied.

ii) The effectiveness in eliminating other outside news to obtain a pure sample of "bonus issue effect only" is a difficult matter. For example, some companies announced earning results and dividend or any other announcements close to our study period, which would have an impact on the stock price.

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6.3 FUTURE DEVELOPMENT

Some suggestions for future studies should include:

i) Extend the scope of this study to a wider base (from 1980 to 2002) where more data can be obtained and more groups of various distribution ratios can be included in the study, which may then strengthen the evidence of this study, or otherwise. Also can compare results for different sub-periods covering different economic conditions.

ii) Conduct a similar study relating to other public announcements such as earning, dividends, right issues, to see the impact of such announcements in relation to the efficiency of the KLSE.

iii) Conduct a similar study in the future using data covering the next 5 to 10 years to see if the KLSE becomes more efficient as time passes.

There is a very rich field of information relating to the stock market available out there to mine. Any further research into any areas of the stock market will only add to and enhance our understanding of the Malaysian stock market.