

6. Conclusion

This study researched the price effect of bonus and rights issues in the KLSE from 1991 to March 2001. It is a research of efficiency of price adjustment to announcement effect, thus a test against semi-strong form of market efficiency.

The finding suggests that there is a positive price reaction to both the bonus and rights issues announcement. The market expected the announcements and prices started to react to these expectation about ten days prior to the actual announcement and significant movement is recorded on one or two days before the announcement. Although the prices do adjusted downward and consolidated after the announcement, the price settled at a level higher than before the announcement. The price reaction before the announcement could be due to some market players are able to anticipate the announcement by analyzing the available information and find the stock that are possible to had bonus issues. However, this is inconsistent with the efficient market hypothesis that state that no one could consistently beat the market. Another possibility is that there are information leakages prior to the announcement.

Apart from this, all bonus and rights issues distributions ratios generate a positive cumulative abnormal return. However, a higher the distribution ratio of generates a higher cumulative abnormal return for bonus issues but a smaller cumulative abnormal return for rights issues.

In terms of the relationship between board of listing and the abnormal return, Second Board is found to have a higher cumulative abnormal return for both the bonus and rights issues. Nevertheless, the rights issues return behavior is quite drastic and this could be due to effect of outliers in the samples and the small number of sample sizes.

As for the sub-period analysis, although the period after the crisis seems to have a higher cumulative abnormal return at the end of the study period, further investigation discovers that this is due to fact that samples in the after crisis period are dominated by shares that have a distribution ratio that are more likely to generate a higher abnormal return as well as shares from the Second Board which are the target of speculation activities.

6.1 Limitation of studies and suggestion for further studies

A point to note from this study is that the sample size for rights issues is very small. Over the study period of ten years, only 41 rights issues that meet all the sampling requirement. Thus, the study on the rights issues may not constitute a valid study. Furthermore, when the rights issues are classified according to distribution ratios, Main Board versus Second Board, and pre and post crisis period, the number of share in each sub sample is even smaller. Thus, further study could look into this shortfall and try to increase the sample size.

6.2 Suggestion for future research

Future studies could try to identify which is the driving force for the cumulative abnormal return for bonus issues. It would be interesting to investigate whether the distribution ratio or the board of listing that is having a greater influence on the cumulative abnormal return obtained.

Future studies could also analysis the behavior of bid and ask spread as well as trading volume during the announcement period. This could provide a cross check against any the speculation activities prior to the announcement period. Also, such studies will show if bonus issues and rights issues really bring the share prices to a trading range that is more preferred by the investors.