

BONUS ISSUES, MARKET REACTION AND INVESTORS' PERCEPTION: MILKING THE 'BONUS' OUT OF BONUS ISSUES

Prepared by: Simmon Lee Kok Hui

ABSTRACT

This paper tackles the problem of determining the stock market reaction to bonus issue or stock dividend announcements in Malaysia or more specifically the Kuala Lumpur Stock Exchange (KLSE). It then seeks to explain any significant market reaction from the perspective of investors' perception due to the core role they play. 60 bonus issue announcements in the year 2000 are analyzed. Market reaction is determined through an event study methodology using the market index of either the Kuala Lumpur Composite Index or the Kuala Lumpur Second Board Index depending on listing on announcement date. Investors' perception is gotten through questionnaires and various statistical tests are conducted to determine their collective perception. Market reaction is then explained through the Efficient Market Hypothesis (EMH), gauged for consistency with actual investors' perception and investing strategies are then recommended to exploit any anomalies.

Empirical findings show positive abnormal returns on the announcement date but are not instantaneous, thus the KLSE was found to be not efficient in the semi-strong form. Pattern of market reaction shows under-reaction on announcement date, over reaction two days later and only coming to the equilibrium on the seventh day. Investor's perception on bonus issues is found to be overwhelmingly positive and is consistent with the market reaction.

Investors could indeed gain abnormal returns from bonus issue announcements in the Malaysian stock market as it takes such a relatively long time to adjust to its new equilibrium.