

Stock Dividend Announcements and Semi-strong Form Efficient Market Hypothesis: Evidence from Colombo Stock Exchange (CSE)

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Recognizing the requirement of transferring from an emerging market to a developed market and the value of information contained at the announcements of stock dividend announcements on stock returns from developed markets, this study investigates the stock price reaction to stock dividend announcements of the companies listed on the CSE, thereby provides a test of semi-strong form efficient market hypothesis in Sri Lankan Share Market. This study uses three widespread methods namely Mean Adjusted Model, Market-Adjusted Model, and Market Model in generating abnormal returns in and around subsequent announcement. However, this study enriches the event study method by incorporating stock volatility clustering phenomenon and information asymmetric effects to the Market Model. It is further extended with the application of volatility time series techniques. Thus, Time Series Models such as AR, MA, ARMA, GARCH, TAR and EGARCH are used to minimize the use of bias of the CSE All-Share Price Index as a proxy in generating abnormal returns in and around the announcement. The sample consists of 27 of public announcements of stock dividend on the CSE from 2004-2014. Overall results of the analysis within the 31-day window period based on each return, generated model show the positive reaction for information subsequent to the stock dividend announcements in CSE. It is consistent with Information Content Theory. Further, findings show that the abnormal returns appear not only on the event day but also prior to the actual announcement of stock dividends, as well as after the actual announcement of stock dividends. It indicates that there are earlier reactions and delayed reactions in the market and that stock prices do not reflect this publicly available information instantly and accurately. Therefore, it confirms that

the Sri Lankan Share Market is inconsistent with Semi-strong Form Efficient Market Hypothesis.

Key words: *Colombo Stock Exchange, Event Study Methodology, Information Content Theory, Semi-strong Form Efficient Hypothesis and Stock Dividend.*