

Stock Splits And False Signaling Cost Within A Management Reputation Framework

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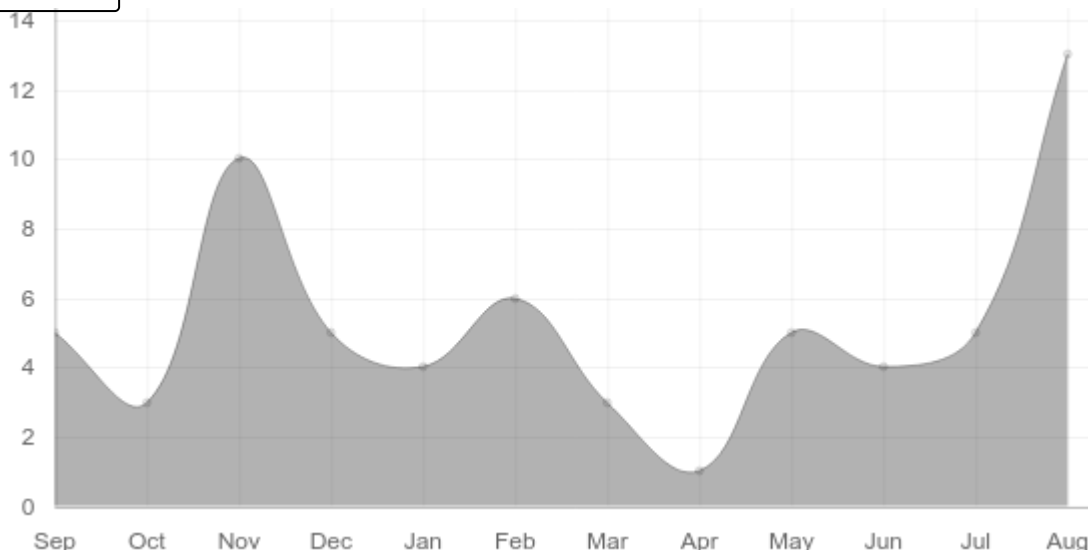
Keywords

stock splits, false signalers, Value Line forecasts, reputation

Abstract

In order for signals to be informationally consistent in an efficient capital market, false signaling must be costly. To date researchers have been unable to identify any cost incurred by false signalers in the case of stock splits. This study identifies inhibited future ability to signal as a cost incurred by false signalers. False signalers are firms that announce stock splits and subsequently report earnings below pre-event Value Line forecasts. Ability to signal is monitored through observation of market reaction (abnormal daily returns generated under the mean adjusted returns model). The results indicate that previous false signalers experience less favorable market reaction to subsequent split announcements than a comparison group. Previous false signalers demonstrate positive earnings performance with subsequent split announcements, and weak evidence indicates earnings performance superior to the comparison group. The notion that previous false signalers attempt to reestablish their reputations when conveying future signals is supported.

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