Measuring Abnormal Performance in Event Studies: An Application with Bonus Issue Announcements in Colombo Stock Exchange (CSE)

12 Pages
Posted: 27 Nov 2009

K G K Fernando (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1358573)
Department of Finance, Faculty of Management & Finance, University of Colombo

P.S.M. Guneratne (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1394090)
Department of Finance, Faculty of Management & Finance, University of Colombo

Date Written: November 25, 2009

Abstract

This paper examines the stock price performance on and around bonus issue announcements in CSE over the period 1991 to 2007 using three return generating models; Market Adjusted, Constant Mean Adjusted and Risk Adjusted, with the intention of providing a methodological triangulation in the context of event studies. Despite the mere ceremonial nature of bonus issues, all three models suggest that the market responds significantly on bonus issues with a large price appreciation on the announcement day itself. Positive sentiments start well prior to the event and continue up to about further 6 market days creating both statistically and financially significant arbitrage opportunities. In compression to the other two models, abnormal returns calculated with the Market Adjusted Model are somewhat inflated probably due to the fact that stocks go on bonus issues are the stocks already performed well compared to the market for a reasonable period. Despite the marginal bias of the event towards the Market Adjusted Model, findings based on all three models almost lead to the same conclusion

Keywords: Event Study, Alternative Models, Abnormal Performance, Bonus Issues, Colombo Stock Exchange

Download This Paper (Delivery.cfm/SSRN_ID1513320_code1358573.pdf?abstractid=1513320&mirid=1)

Open PDF in Browser (Delivery.cfm/SSRN_ID1513320_code1358573.pdf?abstractid=1513320&mirid=1&type=2)

Related eJournals

Capital Markets: Market Efficiency eJournal (https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=1504403)

Follow

Recommended Papers

Market Efficiency, Long-Term Returns, and Behavioral Finance (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=15108&rec=1&srcabs=1513320&pos=1)
By Eugene F. Fama (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=998)

Market Underreaction to Open Market Share Repurchases (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=226564&rec=1&srcabs=1513320&pos=2)
By David L. Ikenberry (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=17880), Josef Lakonishok (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=27295), ...

Managerial Decisions and Long-Term Stock Price Performance (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=94137&rec=1&srcabs=1513320&pos=3)
By Mark L. Mitchell (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=22879) and Erik Stafford (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=42540)

View more >