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Odd-Lot Costs and Taxation Arguments for the Ex-Date Price Effects of Stock Dividends

Massey University, Department of Finance, Banking & Property Working Paper No. 02-04

41 Pages

Posted: 22 Oct 2002

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Date Written: August 2002

Abstract

Past research has revealed significant abnormal ex-date returns for stock dividends even though the ex-date is known in advance and the distribution contains no new information. Various researchers have suggested that odd-lot transaction costs faced by certain investors are the key driver in the abnormal returns. However, no study to date has directly compared the ex-date price reaction of stock dividends distributed when odd-lot trade costs were charged to those issued when odd-lot costs were not evident. A further tax-based argument has also been put forward to explain the price reaction to stock dividends when those dividends carry imputation tax credits. New Zealand stock dividends present a unique opportunity to directly test the odd-lot cost argument as well as examine the impact of New Zealand's imputation tax regime on stock dividend ex-dates. We find evidence to support the odd-lot transactions cost argument and also show that imputation tax credits have a value greater than zero.

Keywords: Stock Dividends, Ex-dates, Imputation Tax, Odd-lot Costs

JEL Classification: G14, G35, G38

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