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Anomalous price behaviour around stock repurchases on the Taiwan stock exchange

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Abstract

This study examines the impact of stock repurchases on a repurchasing firm's stock returns on the Taiwan Stock Exchange (TWSE). It is clear that significant negative abnormal returns are observed most days prior to the announcement day and that significant positive abnormal returns are detected on the announcement day and during the first few days of the post-announcement period. The total sample is further divided into various sub samples on the basis of the purpose of repurchasing, the industrial sector, firm size and the size of the repurchase. On account of the feature of industrial development in the last ten years in Taiwan, the peculiar finding is that the book-to-market ratio, which has been used to partition the repurchasing sample in the USA and Canada in previous studies, may be more appropriately substituted by the industrial sector. This finding indicates that the stock repurchase announcements of

financial firms or conventional firms generate a greater impact on stock returns than do electronics firms.

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Notes

The most important political event is that Taiwan first experienced ruling party rotation on May 2000. The Democratic Progressive Party (DPP) replaced the Kuomintang (KMT), which had been in power for over 50 years.

Taiwan stock markets include the Taiwan Stock Exchange (TWSE) and Over the Counter (OTC). Because the trading value and trading volume of OTC is much smaller relative to TWSE, this study excludes the OTC market.

Conventional firms, as called by Taiwan's newspapers, include cement, food, plastics, textiles, electric, machinery, appliance, cable, chemical, glass, ceramic, paper, pulp, steel, iron, rubber, automobile, construction, transportation, tourism, department stores, security firms, composite and other industries.

The reason is that the market model and the GARCH model need to use an estimation period to estimate parameters.

During the research period, the market exchange rate of 1 US dollar fluctuated around 31.097–34.999 NT dollars.

The market model and GARCH (1, 1) process are not spelled out here due to space considerations.

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