

The Impact of Stock Split on Stock Prices in the Egyptian Stock Market

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Abstract

Due to the variant results of studies and scientific researches in regards to the impact of stock split policy on the share market value; in addition to the existence of manipulation with the splitting decree by some companies, and in the light of concern of the international controlling institutions to the stock markets which reflect the extent of responsiveness of stock markets to the splitting policy and its consequences. Moreover, the requirement of the emerging markets to more studies in regards to the impact of splitting policy on the shares trading, activating markets, and the requirements of the small investors to acquire sufficient awareness of stock split policy; such requirements are vital due to the scarcity of scientific researches and articles that tackle the calculations and standards of stock split policy' effect on the share market value s in the emerging markets especially the Egyptian stock market. Moreover, after many of the Egyptian companies are directed lately towards adopting such policy due to its active role in attracting small investors for contributing in stock markets, as well the consequences of this policy on the expansion of ownership of shares basis of companies and activation of stock market. Thus, it becomes necessary to clarify the illustrative frame of stock split policy by reflecting its illustration, importance and motives which companies follow the stock split. The researcher findings in the light of the aforementioned analysis and observations that are highlighted in this study: An accounting framework is suggested to set criteria and basics that companies have to follow upon taking the splitting decision; some lists are suggested to reflect the splitting impact to achieve the basic target of research. Prices of the market shares are affected by application of stock split on short term and medium range; whereas it is shown that, the majority of companies that performed splitting achieved increased prices in their shares after stock split. Achieved split ratios are (15:1), (29:1) that made the best impact on the share market value and share trade value .In addition, the impact of the sector's type that a corporation belongs to on the variance of the share market value and the share trade value after stock split; whereas a variance of the effect of stock split policy is significant on the share market value and the share trade value according to the sector's type that a corporation belongs to. Finally, the share trade value is affected by stock split in the short term and medium range.

Keywords: Stock split, stock prices, Egyptian stock Exchange, Accounting framework, mixed method.