

Abstract

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Stock Price Reaction to Dividends Declaration in Emerging Stock Markets: Application on the Egyptian Stock Market

This study examines the common stock price behavior on ex-dividend day in Egyptian stock Market, and whether there is a significant statistical relationship between cash dividend as independent variable and stock price as dependent variable. The researchers executed the examination on the raw stocks' prices during the period from 2006 till 2010. It is noticeable that the Egyptian stocks market has special features where there are neither taxes on capital gains nor on cash dividends, and cash dividends in almost cases are distributed annually. The study is conducted on each year separately then on the accumulated data of all years to give diversity in results. A significant statistical relationship between cash dividend and price on ex-dividend day is found. The research found that the stock raw price s on ex-dividend day by less than the amount of cash dividend and the average ratio of change in price to cash dividend during the whole period from 2006 till 2010 is 0.534. Which means that there is a market abnormal return that can lead to an arbitrage opportunity for investors.