

Abstract

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The Market Reaction to Stock Splits/An Empirical Evidence

The stock split is a popular practice in many markets despite the fact that it does not fundamentally change the value of the firm. Many past evidences supported the liquidity hypothesis and found positive abnormal return around stock split date. However, all studies employed traditional event study methodology and defined the event date as either the announcement date effective date. This thesis investigates the impact of stock splits on the firm's share prices on the Egyptian Exchange in the period 2007 to 2010. The purpose of this study is to test whether the investor can make an above normal return by relying on public information impounded in a stock split announcement. Stock split samples include a total of 906 daily observations and the corresponding EGX 30 was analyzed using standard risk adjusted event study methodology. An event study is conducted in order to identify abnormal returns both around the announcement day and the stock split date. Negative abnormal returns are found at the announcement date, while positive abnormal returns are found at the split date.