

**MEASURING INVESTORS' PREFERENCES,
ATTITUDES, AND PERCEPTIONS
TOWARD DIVIDENDS**
“An Empirical Study on the Egyptian Stock Market”

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1. ABSTRACT

The behavior and attitude of investors toward dividend-paying stocks is one of the most important issues of behavioral finance and as well as for the Egyptian Stock Market. A lot of researches has been conducted by well-known researchers and provided the theories and empirical evidences regarding the determinants of investor attitudes toward dividends. However, a complete profile of the preferences of the Egyptian investors in this regard is not yet available.

The objective of the study is to find evidence of dividend clienteles in the Egyptian Stock Market by finding the correlations among dividend preferences and the different demographic and other characteristics of investors. This is achieved by using a sample of 270 Egyptian investors who provided data related to their dividend preferences. Moreover, it aims at testing theories that have previously been built concerning investor perceptions about dividends, specifically in the Egyptian Stock Market.

It was found that investors in Egypt prefer to receive dividends. If the company cannot pay cash dividends, they prefer to receive stock dividends compared to not receiving dividends at all. Furthermore, it was found that investors partly want dividends because of transaction costs. Transaction costs were also found to be the reason why investors prefer stock dividends over cash dividends. The results are also consistent with the uncertainty resolution theory, partially consistent with the free cash flow theory (consistent only in down markets), but inconsistent with the agency theories. Moreover, no support was found for the signaling theory, and the theories of behavioral finance, stock repurchase, and stock dividends as stock splits.

Keywords: *dividends preferences, attitudes, perceptions, Egypt.*

2. INTRODUCTION

The stock market has become an essential market playing a vital role in economic prosperity encouraging capital formation and sustaining economic growth. Stock markets are more than a

place to trade securities; they operate as a facilitator between savers and users of capital by means of pooling of funds, sharing risk, and transferring wealth. Stock markets are essential for economic growth as they ensure the flow of resources to the most productive investment opportunities. Stock prices change in stock markets on a daily basis.

Moreover, during certain times of the year, it is easy to notice that stock prices appreciate every morning, and this may take place many times in one day for some stocks. Like any other commodity, in the stock market, share prices are also dependent on so many factors. So, it is hard to point out just one or two factors that affect the price of the stocks. There are still some factors that directly influence the share prices.

The question is what drives people toward buying or selling stocks which result in the fluctuation of stock prices. There is no perfect system that indicates the exact movement of stock prices. However, the factors behind increases or decreases in the demand and/or supply of a particular stock could include company fundamentals, external factors, and market behavior. Based on this, it is investors' sentiments, attitudes and expectations that ultimately affect their buying decisions and hence stock prices.

Theoretically, earnings are what affect investors' valuation of a company, and are perhaps the most important factor for deciding the health of any company and influence the buying tendency in the market resulting in the increase in the price of that particular stock. However, earnings are not the only factor that can change the sentiment towards a stock (which, in turn, changes its price). As stock market prices are affected by business fundamentals, they are also affected by company and world events, human psychology, and much more.

The behavior and attitude of investors toward dividend-paying stocks is one of the important issues of behavioral finance and as well as for the Egyptian capital market. Much research have been conducted by well-known researchers and provided the theories and empirical evidences regarding the determinants of investor attitudes toward dividends. However, a complete profile of the preferences of the Egyptian investors in this regard was not provided. This study aims at analyzing the correlation between the different characteristics of Egyptian investors and their attitude toward dividend-paying stocks. Such characteristics include age, gender, income, and investment interval. The study also aims at finding the reasons underlying the way investors perceive dividends and testing whether theories built in previous studies are supported or unsupported by evidence from the Egyptian Stock Market.

3. LITERATURE REVIEW

3-1. General Dividend Definitions and Insights

Dividend Policy is the management's long-term decision on how to allocate cash flows from business activities, that is, how much to invest in the business and how much to return to shareholders. Companies must also decide on the form of distribution made to shareholders, that is, whether to distribute dividends in the form of cash dividends, stock dividends, stock splits, or stock repurchase.

Clearly the dividend policy decision is a complex one involving many factors. For example, consider the case of a company that is planning to expand operations. One option is to accumulate funds internally by reducing current dividends. In this case, dividend policy should be compared to alternative financing methods such as new borrowing or capital increases. Measures of Dividend Policy include Dividend Payout and Dividend Yield. Dividend Payout measures the

percentage of earnings that the company pays in dividends while Dividend Yield measures the return that an investor can make from dividends alone.

3-2. Cash Dividend Theories:

Miller-Modigliani Dividend Irrelevance Proposition:

The first and most interesting theory related to dividend policy is the irrelevance theory, which states that if capital markets are perfect, dividends have no influence on the share price (Miller and Modigliani, 1961). This proposition rests on several assumptions—capital markets are perfect, there is no asymmetry of information, no tax or transaction costs, no changes to the business composition or capital structure, and managers seek to maximize shareholder value. Under these simplified conditions, the logical conclusion is that changes in dividend policy have no economic implications. Thus under these simplified conditions, dividend policy affects only the allocation between income gains and capital gains, and has no effect on the total value received by shareholders.

Transaction Costs:

An explanation of why investors prefer dividend-paying stocks is the transaction costs reasoning. An investor who wants to receive a regular income from her security holdings has a choice between buying dividend-paying stocks and cashing in the dividends, and buying non-dividend paying stocks and regularly selling part of her portfolio. For a small individual investor the transaction costs of cashing in the dividends may be significantly smaller than the transaction costs associated with selling part of the stocks (e.g., Allen and Michaely, 2004).

Uncertainty Resolution Theory:

The uncertainty resolution theory is another theory explaining investors' preference of dividends. Gordon (1961, 1962) argues that outside shareholders prefer a high dividend policy. They prefer a dividend today to a highly uncertain capital gain from a questionable future investment. A number of studies demonstrate that this model fails if it is posited in a complete and perfect market with investors who behave according to notions of rational behavior (e.g., Miller and Modigliani, 1961; Bhattacharya, 1979). This theory is also known as the —bird in the hand theory. Barberis and Thaler (2004) disagree with Gordon's reasoning that increased dividends make the firm less risky. Their argument is that a firm's overall cash flows cannot be changed with a change in dividend policy.

Free Cash Flows and Agency Theory:

When companies generate cash flow from business activities in each period, they can either invest it in the business, or build up cash holdings. In the latter case, managers enjoy considerable discretion, and may not necessarily try to maximize shareholder value. A clear implication of the standard free cash flow hypothesis as advanced by Jensen (1986) is the separation of ownership and control since wider ownership dispersion intensifies the conflict of interests between managers and shareholders. This conflict of interests generally motivates higher dividend payouts to limit the managerial tendency to misuse shareholder funds. The point is, as ownership becomes more concentrated, the likelihood of over investment is reduced.

Berle and Means (1932) argue that, as companies grow, ownership is separated from control. Beyond a certain size, the initial owners of the firm will no longer be able to finance the firm and will have to take the firm public to gain access to further financing. As the firm grows further, more investors will hold the firm's stock and each investor's holding in the firm will be too small to confer any reasonable level of control over the management.

This theory is difficult to test. The reason is that it is difficult to convey the notion of a negative net present value project to individual investors who are not aware of finance theory. One possible way to test this theory is by linking free cash flow to down markets or economic downturns, on the assumption that there are fewer growth opportunities in such circumstances.

An alternative explanation for changes in corporate dividend policy stems from agency theory. Rozeff (1982), Easterbrook (1984), and Jensen (1986) were the first to argue that, in the presence of agency costs, dividends play an important role. Their theoretical framework explicitly assumes that ownership has been separated from control within the firm, as hypothesized by Berle and Means (1932).

Information Signaling Theory:

A significant stream of prior research in the United States has empirically documented that unexpected increases (decreases) in regular cash dividends generally elicit a significantly positive (negative) stock market reaction (Fama et al. (1969) and Petit (1972)). Moreover, this finding persists even after controlling for simultaneous earnings announcements (Aharony and Swary (1980)). In the same vein, Asquith and Mullins (1983) find that, like dividend increases, dividend initiations have a significant positive impact on expectations of increase of shareholder wealth. Much subsequent research has focused on explaining why the dividend increase induced positive stock market reaction. The predominant explanation, by far, has been the information-signaling hypothesis.

Since managers have information that outside investors do not have, dividend policy is a costly-to-replicate vehicle for conveying positive private information to market participants. In line with these arguments, signaling models by Bhattacharya (1979) and Miller and Rock (1985), among others, find that dividend increases convey information about the firm's current and future cash flows. Many earlier studies had shown that stock prices tend to increase when an increase in dividends is announced and tend to decrease when a decrease or omission is announced.

The Dividend Clientele Hypothesis:

A particular pattern of dividend payments may suit one type of stockholder more than another. A retiree may prefer to invest in a firm that provides a consistently high dividend yield, whereas a person with a high income from employment may prefer to avoid dividends due to their high marginal tax rate on income. If clienteles exist for particular patterns of dividend payments, a firm may be able to maximize its stock price and minimize its cost of capital by catering to a particular clientele. This model may help to explain the relatively consistent dividend policies followed by most listed companies.

More recently, behavioral hypotheses propose explanations for possible age and income clienteles. Shefrin and Statman (1984) argue that mental accounting may influence investors' dividend preferences—investors who keep dividend income and capital gains in two separate—mental accounts may not treat them equally. Such investors may prefer high DY stocks because the dividend income may act as a—silver lining when capital gains are low or negative. Life cycle considerations may also influence retail investors' dividend preferences (Shefrin and Thaler, 1988).

Dividends and Taxes:

Another explanation is the tax hypothesis. Given the differential tax treatment between dividend income and capital gains, dividend policy changes also have tax implications that are reflected in stock market prices. In the United States, capital gains have historically been taxed more favorably than dividends. In other countries capital gains on stock investments are not taxed at all

while dividends received (beyond an exempt amount) are taxed at an individual's personal income tax rate.

3-3. Stock Repurchase

Common stock repurchase is a well-known alternative to cash dividends. Both ways of paying out cash are useful to mitigate the agency problems that are raised by Easterbrook (1984) and Jensen (1986). A large number of academic papers find that share buy-backs are especially useful to signal that the stock price of the company that buys back its shares is undervalued. A number of studies including Comment and Jarrell (1991) and Ikenberry *et al.* (1995, 2000) find that share buy-back announcements are associated with significantly positive abnormal returns.

3-4. Stock Dividends Theories

An issue that is closely related to that of cash dividends is the question of why some companies —pay stock dividends. As every standard textbook in Finance teaches us, stock dividends are nothing more than a small stock split. DeBondt and Thaler (1995) refer to stock dividends as one of the big anomalies in finance. Stock dividends may have an advantage over cash dividends because they may carry lower transaction costs. This is the case if the ultimate goal of the investor is to re-invest the dividends. With a stock dividend, the dividend is effectively re-invested in the same stock. With a cash dividend, transaction costs are incurred to re-invest the money in stocks. Again, it has to be noticed that a stock dividend is not a real dividend. However, for an investor who sees a stock dividend as a real dividend, and who wants to re-invest her money, stock dividends may reduce transaction costs.

3-5. Behavioral Finance

Shefrin and Statman (1984) argue that there are behavioral reasons to —pay stock dividends. These reasons are especially compelling if the company does not want to pay a cash dividend, e.g. because it does not have free cash flow. They argue that stock dividends are labeled as dividends. Therefore, an investor who sells off and subsequently consumes her stock dividend does not break the mental accounting rule to not consume out of capital. Furthermore, stock dividends that are kept in portfolio are considered differently from the original stocks.

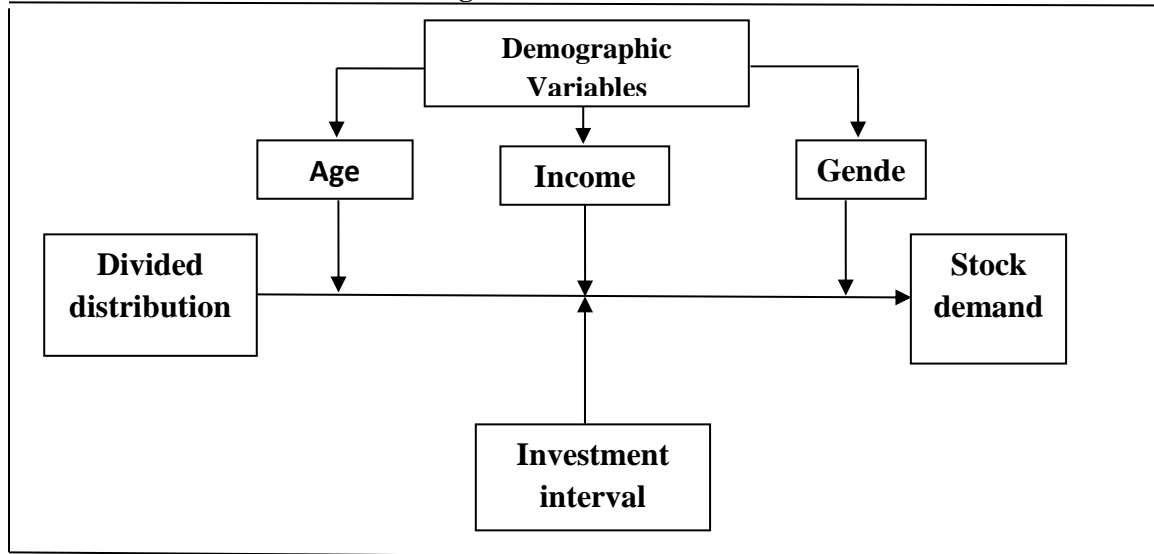
The reason for this is that many investors think in terms of gains and losses. They consider the price for which they acquired the share of common stock. This price is different for the original share and for the share that was acquired with the stock dividend. Shefrin and Statman (1984) develop —the behavioral life cycle theory of dividends based on self-control. This argument comes down to investors wanting to restrict themselves from consuming too much in the present. They don't want to dip into capital and, therefore, they only allow themselves to consume current income such as dividends. The effect described by Shefrin and Statman (1984) is especially strong for elderly (retired) investors, as they have little or no labor income and rely more heavily on income from their securities holding.

At first this theory shows some resemblance with Gordon's (1961, 1962) theory. However, the theory of Gordon is based on uncertainty towards future dividends, while Shefrin and Statman (1984) argue that their theory is supported by the outcomes of a study from Lease *et al.* (1976) who find that elderly persons have a stronger preference for dividend paying stocks than younger persons. The theory of Shefrin and Statman (1984) is based on investors who prefer to consume from dividends instead of capital gains.

So we come to conclude that dividend policy may not be an effective management tool and may not even be completely under your control in a world of rational expectations, but there are things that do matter and over which you do have more control. These are the firm's investment

decisions and to the engineering, production, personnel, marketing, and research decisions that underlie them. These decisions are in what economists call the —real side of the business, and they generate the firm’s current and future cash flows. That, you’ll find, is what really matters. The research model is illustrated in figure 1.

Figure 1: research model



Research Hypotheses:

H1: There is a significant positive relationship between dividend distribution and demand for stocks.

H2: There is a positive correlation between investor type in terms of investment interval and demand for dividend-paying stocks.

H3: There is a relationship between demographic characteristics of an investor and his demand for dividend-paying stocks:

H3.1: Investor age and dividend-paying stocks demand are positively correlated.

H3.2: Investor income and dividend-paying stocks demand are negatively correlated.

H3.3: There is a correlation between investor gender and dividend-paying stocks demand.

4. RESEARCH DESIGN

The nature of the study is mixed, including a qualitative part in which preferences and perceptions of investors toward dividends are being addressed, and a quantitative part in which dividend clienteles are tested by using correlation and regression analysis.

4-1. Data collection method

To shed more light on the dividend puzzle, a group of Egyptian investors were surveyed to answer questions on personal investment and consumption matters. A demographic profile of the panel members is available, which allows us to better understand the survey responses and test the dividend theories more fully. Institutional investors were not included in this survey. The theories developed over more than 40 years relating to individual investor decisions are to be tested in this study.

If institutional investors are acting in place of their clients, then their portfolio decisions will reflect the preferences of their clients. This is particularly true for managers of investment funds, since the income flows directly to the beneficial owners. This survey looks at individual investors who hold shares directly and/or through investment funds. The indirect holdings through pension plans are not represented. Conducting research in Egypt on dividend preferences has a special advantage, because the Egyptian tax system does not tax dividends or capital gains. This tax environment provides us with an excellent setting to test dividend theories by isolating the tax effect on dividends from other considerations.

4-2. The Questionnaire

Large efforts were made to avoid the potential problems that are associated with the use of surveys. For example, several questions were asked for each of the theories in order to limit the possibility that the questions are misunderstood. Moreover, while it is true that surveys measure beliefs rather than actions, this is not viewed as a problem, since beliefs are what are to be measured.

4-3. Sampling design

The sampling used was convenience sampling. The questionnaire was administered to investors in the Egyptian Stock Market through different brokerage and financial service firms in Egypt. Over 500 questionnaires were distributed of which only 270 were returned back fully completed.

4-4. Statistical Analysis

Responses to the survey questions are both presented for the whole sample and for sub-samples according to demographic and other investor statistics, i.e., age, income, gender, and investment interval. Most of the questions are asked on a scale of 1 to 5, with 3 as the neutral score.

In the first part of the analysis, linear regression was used in order to test for the existence of dividend clienteles in the Egyptian Stock Market, by modeling the relationship between dividend preference and the different demographic and other characteristics of investors in the Egyptian Stock Market. These characteristics include age, gender, income, and investment interval.

In the second part of the analysis, the frequencies and percentages of responses were found which was made to find out whether the responses from demographic groups are significantly different.

The dependent variable

The dependent variable in this model is the dividend preference which is measured using a scale from 1 to 3, in which 1= do not prefer dividends, 2 = indifferent about dividends, and 3= prefer dividends.

The independent variables

The independent variables are age, gender, income, and investment interval which are the demographic and other characteristics of investors. Age is measured using a scale from 1 to 5 in which 1= below 25, 2= 25 – 35, 3= 36 – 45, 4= 46 – 55, and 5= above 55 years old. Gender is measured using a binary nominal coding in which 0 = male and 1 = female. Monthly income is measured using a scale from 1 to 5 in which 1= below 3,000, 2= 3,000-6,000, 3=6,001-9,000, 4= 9,001-12,000, 5= 12,001-15,000, and 6= above 15,000 Egyptian pounds per month. The investment interval classifies investors into short-term and long-term investors using 2 questions. The first is concerned with the period of investment before the study during which the investor owned stocks and uses a scale from 1 to 3 in which 1= more than 3 years, 2 – 1-3 years, 3= less than 1 year. The second question is concerned with the period after the study during which the

investor is planning to keep the stocks. The investor is considered a short term investor if he/she chooses 3 in both questions. Otherwise, he/she is considered to be a long-term investor.

5. FINDINGS AND RESULTS

5-1. Results on Dividend Clienteles

Correlations between demand for dividend-paying stocks and the demographic and other characteristics of investors in the Egyptian Stock Market showed that being a short-term or a long-term investor is highly correlated with dividend preference with a correlation equal to 0.582. This means that long-term investors are more interested in dividend distribution than short-term investors. Age also is an important factor in the attitude toward dividends. Older investors prefer dividends more than younger investors with a correlation between age and dividend preference equal to 0.389. Gender and dividend preference appeared to have a correlation equal to 0.239 while income appeared to be the least effective factor on dividend preference with a correlation equal to 0.147. Table (1) illustrates the correlation among all the variables under study.

Table (1): Correlation Matrix

	<i>Div Pref. (1)</i>	<i>Age</i>	<i>Gender</i>	<i>Income</i>	<i>Interval</i>
<i>Div Pref. (1)</i>	1.000				
<i>Age</i>	.255	1.000			
<i>Gender</i>	.239	.303	1.000		
<i>Income</i>	.147	.565	.299	1.000	
<i>Interval</i>	.582	.361	.229	.493	1.000

The results of the regression analysis proved that dividend clienteles did exist among investors in the Egyptian Stock Market and are illustrated in table (2) as follows:

Table (2): Regression

ANOVA table						
<i>Source</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>p-value</i>	<i>R²</i>
Regression	71.6033	4	17.9008	44.22	120E ⁻³²	0.443
Residual	107.2708	265	0.4048			
Total	178.8741	269				

Regression output					<i>confidence interval</i>	
<i>Variables</i>	<i>Coefficients</i>	<i>std. error</i>	<i>t (df=265)</i>	<i>p-value</i>	<i>95% lower</i>	<i>95% upper</i>
Intercept	3.2711	0.2118	16.372	4.20E-42	3.0504	3.8845
Age x1	0.4122	0.0471	2.522	1.68E-21	0.0261	0.2114
Income x2	0.2617	0.0350	4.681	4.57E-06	0.2326	0.0948
Interval x3	0.3146	0.0305	11.628	1.58E-25	0.4146	0.2945
Gender x4	0.2293	0.0938	2.656	.0084	0.0645	0.4341

So the regression model is:

$$Y = 3.27 + 0.4(\text{Age}) + 0.26(\text{Income}) + 0.3(\text{Interval}) + 0.2(\text{Gender})$$

With a P-Value = $120E^{-32}$ indicating the significance of the model at the 0.05 level with $R^2=0.443$ meaning that age, gender, income, and interval explain the change in dividend preference only by 44.3%. The remaining 55.7% can be explained by other factors including transaction costs, risk aversion, consumption and saving patterns, as well as the economic condition.

Overview of Survey Respondents

The questionnaire based on the theories discussed earlier was presented to investors in the Egyptian Stock Market in the period from September 1st, 2010 to October 1st, 2010. Access to these investors was gained through different financial service firms in Cairo and Alexandria and an online survey was created to access investors through Egyptian stock exchange web pages and forums. In total 270 respondents filled out the questionnaire. Table 4.3 shows the summary demographic and other statistics of the survey respondents.

Table 3: Summary Demographic Statistics

Summary demographic statistics of survey respondents		
Number of investors surveyed	500	
Number of responses	270	
Number of investors who:		
are younger than 55	255	94.4%
are older than 55	15	5.6%
are male	199	73.7%
are female	71	26.3%
earn a high income (monthly gross income \geq 9000)	68	25.2%
earn a low income (monthly gross income \leq 9000)	202	74.8%
are short-term investors (< 3 years)	74	27.4%
are long-term investors (>3 years)	196	72.6%

Table (3) shows that the majority of the investors are below age 55 (94.4%), earn low income (74.8%), are long-term investors (72.6%), and are males (73.7%). The correlations between the different categories were also calculated. As can be expected, older investors are also wealthier, with a correlation between age and income level of 0.769. At the same time, age and investment interval are positively correlated with a correlation equal to 0.555. Finally, male investors tend to have shorter investment intervals than female investors.

Now that a complete profile of the sample surveyed in the study has been provided, the results of the survey are to be explored and linked to the theoretical framework that has been established earlier.

5-2 Results on Cash Dividends

The first theory tested was the MM dividend irrelevance theorem. This theory was tested using one question Q1, which asks whether investors like their stocks to pay dividends, with possible answers from 1 for “I do not want dividends” to 3 for “I want dividends”. A score that is equal to 2 means that the investor is neutral between receiving and not receiving dividends. The majority of the sample (48.8%) said they prefer dividend-paying stocks, 23.7% said they were indifferent about dividends while 27.4% said they do not prefer dividends. This justifies the conclusion that

the majority of investors want dividends and rejects the conjecture that dividends are irrelevant to investors, the MM dividend irrelevance theorem.

The preference for dividends is greater among investors older than 55 (hereafter, the “older investors”), compared with younger investors. However, both categories show high preference for dividends, that is, high demand for dividend-paying stocks. Both the result that retail investors want dividends and the result that this is especially true for older investors are in line with the survey results of Brav *et al.* (2004). They find that some CFOs of dividend-paying firms state that some of their investors are the “gray-haired set” or “mom and pop” investors. However, when comparing high income investors (monthly income above 9,000 L.E) to low income investors (monthly income below 9,000 L.E), it was clear that wealthier investors were significantly indifferent about dividends (82.35%) whereas dividends did matter to investors with low income (60.4%). Concerning the investor's investment interval, the majority of short-term investors preferred not to receive dividends (81.08%) while long-term investors wanted dividends (61.22%). This could be justified by the fact that short-term investors by nature choose to enter the stock market targeting returns achieved through capital gains rather than dividends. It is noted that female investors (57.7%) have higher demand for dividend-paying stocks than male investors (45.7%), see table (4).

The second theory tested was the transaction cost theory which stated that investors want dividends for reasons of transaction costs. This theory was tested through Q2 which is, I have a preference for receiving dividends because of transaction costs. (1 = no, definitely not; 3 = neutral; 5 = yes, definitely). The majority of respondents (45.19%) indicate a score higher than 3. This means that most investors want dividends for reasons of transaction costs. This is also true for high income investors (64.71%). High income investors might significantly be concerned about transaction costs because they usually hold large sums in stocks and would incur substantial amounts in transaction costs. There are also remarkable differences between the other demographic and interval groups. The majority of old investors, low income investors, and long-term investors are indifferent about transaction costs. This can be justified by the fact that long-term investors tend to have a lower stock turnover and in turn incur less transaction costs. As mentioned before, age and investment interval are highly correlated. This means that old investors are more likely to also be long-term investors explaining the neutral attitude toward transaction costs. Low income investors usually hold small investments in stocks and hence would incur non-substantial amounts in transaction costs. This can explain the reason they are indifferent about transaction costs. On the other hand, young investors and short-term investors show that transaction costs are not a reason for them to prefer to receive dividends. Short-term investors see greater returns from capital gains than from dividends and trade based on stop loss and other strategies in which transaction costs are considered. This is why they choose to incur transaction costs and sacrifice dividends to gain greater returns through capital gains. Again the fact that age and investment interval are highly correlated explains why young investors do not think that transaction costs are a reason for them to prefer to receive dividends, that is, most young investors are short-term investors. On the other hand, female investors seem to be less concerned about transaction costs than male investors. Despite the differences among categories concerning transaction costs, it is significantly evident that the majority of investors want dividends for reasons of transaction costs. See table (4).

The third theory is the uncertainty resolution theory that was originally suggested by Gordon (1961, 1962). According to this theory investors prefer dividend-paying stocks, because they are perceived to be less risky. This theory was tested using 3 questions, these questions are; Q3. Comparing high dividend yield companies with low dividend yield companies, do you believe that the high dividend companies are: 1 = less risky; 2 = just as risky; 3= more risky) Q4. Shares

that pay relatively higher dividends are less risky. (1 = strongly disagree; 3 = neutral; 5 = strongly agree). Q5. In a down market, the dividend yield is a more substantial fraction of the total returns than in an up market. Is this a reason for you to invest more in dividend paying shares in a down market? (1 = no, definitely not; 3 = neutral; 5=yes, definitely).The result for Question 3for the whole sample suggests that this theory holds true in the Egyptian Stock Market. Investors perceive dividend paying stocks to be less risky. Questions 4and 5also confirm this result. Apparently, the majority of investors perceive high dividend yield stocks to be less risky than low dividend yield stocks.

Then accounting manipulations theory was tested using 2 questions these questions are; Q6. Do you think that dividend- paying stocks offer more certainty about the companies' future earnings prospects compared with stocks that do not pay dividends? (1 = no, definitely not; 3 = neutral; 5 = yes, definitely) Q7. Do you buy dividend- paying stocks because these companies generate real earnings and are less likely to "cook the books"? (1 = no definitely not; 3 = neutral; 5 = yes, definitely). The conjecture that dividends area safeguard against accounting manipulations is not generally supported by the answers toQuestions6 and7. InQuestion6 for the whole sample, investors reject the perception of dividends as offering more certainty about future earnings. In Question 7, the investors reject the idea that dividends signal real earnings. Results for sub-groups are consistent with those of the whole sample. These responses might differ if the nationality of the investments is considered – investors would be more wary of relying on financial statements from a country with somewhat weaker accounting and auditing standards.

Also, free Cash Flow Theory was tested using two questions. These questions are; Q8. In economic downturns, fewer good investment projects are available. Would you, for this reason, invest more in dividend paying stocks in down markets or in economic downturns? (1 = no, definitely not; 3 = neutral; 5 = yes, definitely). Q9. Do you wish to receive dividends because you believe the company will otherwise invest the money unprofitably? (1 = no, definitely not; 3 = neutral; 5 = yes, definitely) The results for Jensen's (1986) free cash flow theory are remarkable. Both the results for the whole sample and for the individual sub-samples are partially consistent with this theory. For question 8, the results show that investors would tend to prefer dividend-paying stocks in down markets because using profits to increase the firm's investments rather than pay dividends would be unprofitable because fewer profitable projects are available. However, In question 9, the results for the whole sample and for all the subsamples show scores that are well below3.The results indicate that individual investors do not see dividends as a way to control for possible overinvestment tendencies by management. It should be mentioned that only one side of the free cash flow theory is considered, i.e. the possibility to control the tendency for over-investment by the disciplining role of dividends. Other possibilities to control for this tendency, such as the disciplining role of debt, were not considered.

Then, the agency cost theory of Easterbrook (1984) was tested using 2 questions these questions are; Q10. Would you like to receive cash dividends if a company would have to issue new shares of common stock in order to be able to afford the dividend payment? (1 = no, definitely not; 3 = neutral; 5 = yes, definitely) Q11. Would you like to receive cash dividends if a company would have to borrow money in order to be able to afford the dividend payment? (1 = no, definitely not; 3 = neutral; 5 = yes, definitely). Both questions showed higher frequencies for scores lower than3.This result holds for all demographic sub-samples except for short-term investors who are indifferent or not as concerned about management decisions. These results suggest that individual investors have a preference for management to use internal funds to finance capital budgeting projects. This finding confirms the survey results of Baker et al. (2002) and Brav et al. (2004). Both surveys indicate that there is little or no support for the agency models, as illustrated in table (4).

Furthermore, the choice between cash dividends and share buybacks has been tested to address the way investors in the Egyptian Stock Market perceive share buybacks. It was tested using two questions there questions are; Q12. Suppose a company would stop paying dividends and instead use the money to buy back its own stocks on the market. How would you value such a decision? (1 = extremely negative; 3 = neutral; 5 = extremely positive) Q13. Do you think that a stock repurchase is good because it is a signal that the stock is undervalued? (1 = no, definitely not; 3 = neutral; 5 = yes, definitely)

Even though both dividends and share buy-backs are ways of paying money back to shareholders, investors do not see share buy-backs as equivalent to dividends. Question 12 shows that, for the whole sample, the majority of investors (49.63%) do not want companies to substitute dividends for share buy-backs. The question how they would value a company decision to stop paying dividends and instead buying back shares, with a score of 1 representing —extremely negative and a score of 5 representing —extremely positive showed that the majority (49.63%) of investors viewed share buybacks as negative. Note that low-income investors as well as long-term investors have a bigger preference for share buy-backs to dividends compared to high-income investors and short-term investors, consistent with the finding from Questions 1 and 2 that low-income investors and short-term investors have a stronger preference for dividends, see table (4).

Finally Stock dividends as small stock splits theory was tested using three questions. These questions are; Q14. Stock dividends are: (1=more like cash dividends; 3=more like stock splits) Q15. Can you please give your opinion on a scale from 1 to 5 on the following statement? Because of transaction costs I have a preference for stock dividends over cash dividends. (1=No, definitely not; 5= Yes, definitely) Q16. Suppose a company does not have enough cash to pay a dividend. What is your preference in such a case: (1= preference not to receive a stock dividend; 2=neutral; 3= preference to receive a stock dividend).

The first question on stock dividends (Question 14) asks whether respondents consider stock dividends to be more like stock splits (response possibility 3) or like cash dividends (response possibility 1). The textbook answer would naturally be 3. 47.4% of the responses are equal to 2 versus only 23% higher than 2 and 29.6% lower than 2. It can be concluded that there is only a slight recognition that a stock dividend is more like a stock split than like a cash dividend. The majority of respondents perceive stock dividends as neither similar to stock splits nor cash dividends. This either means that investors do not understand stock dividends or that there is a psychological explanation. The differences in scores between the different income groups are also not significant.

The second question on stock dividends (Question 15) shows that when only considering transaction costs, the majority of investors (39.3%) prefer stock dividends compared to cash dividends. This result suggests that most investors reinvest their dividends, and further confirms the earlier conclusion drawn from Questions 2, 8 and 9. As mentioned in literature, stock dividends are a costless way of reinvesting dividends in the same stocks. However, as mentioned before, this assumes that investors consider stock dividends as real dividends, not as stock splits.

Finally, Question 16 shows that investors do not relate receiving a stock dividend to receiving a cash dividend. They are indifferent about the type of dividend paid to them. The following table summarizes the results of each question and shows whether the results were consistent or inconsistent with the previously addressed theories and notions, see table (4).

Table 4: Summary of Study Results

Question	Theory / Notion	Result	Result Consistency with Theory
Q1	MM Dividend Theory	The majority of investors want dividends	Inconsistent
Q2	Transaction Cost Theory	The majority of investors want dividends for reasons of transaction costs	Consistent
Q3, Q4, Q5	Uncertainty Resolution Theory	The majority of investors perceive dividend paying stocks to be less risky	Consistent
Q6, Q7	Signaling Theory / Accounting Manipulation	The majority of investors reject the perception that dividends signal real earnings	Inconsistent
Q8, Q9	Free Cash Flow Theory	The majority of investors do not see dividends as a way to control for possible overinvestment tendencies by management in up markets	Partially inconsistent
Q10, Q11	Agency Theory	The majority of investors have a preference for management to use internal funds to finance capital budgeting projects	Inconsistent
Q12, Q13	Cash Dividends vs. Share Buybacks	The majority of investors do not see share buybacks as equivalent to cash dividends	Inconsistent
Q14, Q15, Q16	Dividends as small stock splits	There is a slight recognition that a stock dividend is more like a stock split than a cash dividend	Partially consistent

6. DISCUSSION

Based on the previous analysis, it was found that the majority of respondents had a preference to receive dividends. Moreover, it was found that long-term investors are more interested in dividend distribution than short-term investors. Older investors prefer dividends more than younger investors. Female investors appeared to have higher preference for dividends than male investors while income appeared to be the least effective factor on dividend preference, with low income investors having a higher preference for dividends than wealthy investors, who appear to be indifferent about dividend distribution.

The calculation of correlations between dividend preference and the different demographic and other characteristics of the investors showed that the investment interval, that is, the investor being a long term or short term investor, is the characteristic most highly correlated with preference for dividend distribution. The characteristic with the lower correlation with preference for dividend distribution is age. Next comes the investor gender and the least correlated characteristic is the investor's income.

The first hypothesis tested by this study, that states that dividend distribution is positively correlated with demand for stocks, was proved to be true by the higher percentage of investors who said that they prefer dividend-paying stocks over stocks that do not pay dividends. The second hypothesis tested, that states that there is a positive correlation between investment interval and demand for dividend-paying stocks was also proved true by the study. The third hypothesis and its sub-hypotheses were also proved to be true by the study. It was proved that demand for dividend-paying stocks was positively correlated with age and negatively correlated with income. Moreover, there is a correlation between demand for dividend-paying stocks and gender.

The results of the study concerning the link between the investor's preference of dividend distribution and transaction costs were consistent with the transaction costs theory that was introduced by Allen and Michaely (2004). This means that investors in the Egyptian Stock Market prefer to receive dividends because less or even no transaction costs would be incurred when receiving cash dividends than selling some of their common stocks. Similarly, the uncertainty resolution theory of Gordon (1961) was also supported by the results of the study, indicating that investors in the Egyptian Stock Market view dividend-paying stocks to be less risky than stocks that do not pay dividends.

The free cash flow hypothesis of Jensen was partially supported by the study. The results agreed with the theory only during down markets. However, investors surveyed did not seem to believe that dividends control for free cash flow problems in an up market. This means that dividends affect how investors perceive stocks and their risk during down markets more than they do in up markets. The theories of DeBondt and Thaler (1995) concerning stock dividends were also supported by the study. Investors were proved to prefer stock dividends to cash dividends because they reduce transaction costs when investors decide to reinvest cash dividends.

Because the assumption of the MM irrelevance theory of the existence of an efficient market does not hold true, it was not supported by this study. Investors surveyed in the study were proved to have preference for dividend-paying stocks over stocks that do not pay dividends, given the inefficient market characteristics of the Egyptian Stock Market.

The behavioral finance theory introduced by Shefrin and Statman (1984) was also not supported by the results of the study because investors appeared to consume less from dividends than from regular income. They did not use dividends as a means to limit their consumption from the cash flow resulting from selling parts of their portfolios. Investors also do not believe that dividends force companies to be monitored by capital markets and therefore reduce agency costs. This is not consistent with the agency costs theories of Rozeff (1982), Easterbrook (1984), and Jensen (1986). Results of the study were also inconsistent with the signaling theory of Bhattacharya (1979) and Miller and Rock Dividend increase (decrease) does not give investors signals of strong (poor) future performance.

Moreover, repurchases do not also signal stock undervaluation according to the investors surveyed, which is inconsistent with theories on stock repurchases of Easterbrook (1984) and Jensen (1986). Finally, investors do not perceive stock dividends to be more like stock splits. They do not also perceive them to be more like cash dividends. They believe that stock dividends are merely a dividend type that has the advantage of less transaction costs in case of reinvestment of dividends.

7. CONCLUSION AND RECOMMENDATIONS

In this study, an effort was made to contribute to the solution of the dividend puzzle in the Egyptian Stock Market. Most of the finance theories on dividend policy start with the behavior of shareholders. The empirical finance literature on this topic either studies share price reactions or surveys corporate executives for their opinions. No one has asked individual investors why they want to receive dividends. In this study, an effort was made to try to fill this gap by distributing a questionnaire on cash and stock dividends to a sample of Egyptian Stock Market investors. 270 responses were received from investors who hold stocks in exchange listed companies in Egypt.

It was found that investors in Egypt have a strong preference to receive dividends. If the company cannot pay cash dividends, they prefer to receive stock dividends compared to not receiving dividends at all. This clearly shows that they are definitely not neutral towards the dividend policy. Not much support was found for the behavioral explanation of Shefrin and Statman (1984). Furthermore, it was found that investors partly want dividends because of transaction costs. Based on the conclusion drawn from this study, companies in the Egyptian stock market should make use of the fact that investors have a greater preference for dividends. This could be made use of by increasing the demand for their stocks in the market by paying dividends to attract investors to buy them. This would then result in substantial increases in the market price of the stocks. This would also be supported by the conclusion that investors view dividend-paying stocks as less risky stocks.

Companies could also make use of this in down markets when the stock price is suffering from down trends to attract risk-averse investors. If the company pays dividends during down markets, investors would choose to buy their stocks over other stocks that do not pay dividends. Investors are also recommended to invest more in stocks that tend to offer continuous dividend distribution rather than those that offer higher capital gains, even if they appear to generate less net profit than other stocks. They should not make decisions to buy or sell stocks based on single or one-time dividend distribution announcements. Instead, they should evaluate stocks based on long term performance in several aspects including continuous dividend distribution.

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