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Impact of Dividend Announcement on Share Price

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In a dynamic world, investment decision in share market is determined by various factors. One factor is the return on shares. Therefore the dividend announcement is having important role to determine the share prices in the stock market. This study analysis how far dividend announcement affect the share prices in the stock market and focuses on how share prices respond to the information that is implicit in the event of dividend announcement and profit earned by the companies and to identify the price movement when other variable changes. More specifically this study examines how dividend announcement affect the share price and there by provides the effects on it. 10 financial sector companies and 10 non financial sector companies which are listed on the Colombo Stock Exchange (CSE) were selected as sample over a period of 5 years from 2003-2007. The required data for this research was collected from CSE hand book and Annual report of the companies. Daily Market Adjusted Abnormal Return, Average Abnormal Return are used as methodology of this study. Data can be analyzed by using Time series regression analysis. The results indicate that the 75% of companies' have negative relationship and 75% of companies share prices decreased after the dividend announcement. Therefore the study concludes that there is no impact on share price by dividend announcement and also no relationship between the financial sector and non financial sector.

Key Words: Share prices, dividend Announcement, Market Adjusted Abnormal Return,
Average Abnormal Return