CASH DIVIDEND ANNOUNCEMENTS AND STOCK RETURN VOLATILITY: EVIDENCE FROM INDIA

Abstract:
It is generally accepted that cash dividend announcements are indicative of the future financial performance of the firm. Using ‘event study methodology’, the study has examined the effect of cash dividend announcements on stock returns (abnormal returns, if any) volatility that reflect investors’ expectations of risk and return. The results have provided strong support for ‘Signaling’ and ‘Risk Information’ hypotheses conveying that the volatility of stock returns increased post cash dividend announcement due to decline in firm’s risk; but no significant results were reported for stock returns volatility due to dividend announcements. These findings are consistent with ‘Maturity hypothesis’ requiring firms to pay more dividends on attaining maturity, as a result entering into slower growth period. An important implication of this study is that, managers may employ dividend policy to influence their stock’s risk and to the investors’ affecting their portfolios’ risk/return composition. This paper contributes to the deficient literature on cash dividend announcements and stock returns volatility in particular, in emerging economies such as India.

Keywords:
India; Event Study; Signaling

JEL Classification: D81, G11, C58