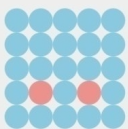




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Institut Pertanian Bogor

MB-IPB

Abstract

Market Reactions to Dividend Initiation in The Jakarta Stock Exchange (JSE)

Riswanto

We examine investor reaction of the corporate dividend's behavior in The Jakarta Stock Exchange (JSX) companies for the period 2004-2005. Time frame of reaction used 7 days before and after corporate action RUPS, declaration of dividend in media mass or JSX site, and cum-dividend. Reasons often given for the positive abnormal return when firms initiate dividends are the signaling of asymmetric information and the reductions of agency costs. This study finds that the effect of initiating dividend used CAPM Model and Jensen Alpha's.

We found that the time of investor's response about dividend initiation has significant before RUPS, than the date of dividend declaration and cum dividend. It's mean little of investor have private information about dividend initiation than another. They got abnormal return when they bought share before RUPS. I found investor reaction of dividend reduction or increasing have anomaly behavior. When dividend reduction release on public information, they behave positive response and abnormal return positive, contradiction with dividend increase, they respond negative of the information. We think evidence of investor behavior about that because they behave irrational than rational behavior that assuming in the CAPM theory.

For investor that trading stock to have real return or abnormal return in time dividend initiation should buy 7 days until 1 day before RUPS and sell on date of cum-dividend. They have optimal real return 17,34 % and abnormal return 13,26%.

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