PDF - DIVIDEND ANNOUNCEMENT SECURITY PERFORMANCE AND CAPITAL MARKET EFFICIENCY, THE NIGERIA PERSPECTIVE - researchcub.info**PROPOSAL**

The main purpose of conducting this research is to ex ray the effect of dividend announcement on security prices in order to determine whether the Nigeria capital market is efficient and at what form of its efficiency. Many searchers have attempted to determine the efficiency from of Nigeria capital market. Empirical results observed from their research has tended to suggest that the efficiency from of Nigeria capital market is weak and others, in the semi- strong form. However very jew have attempted to analyze the effect of dividend announcement do have impact on stock priles. This observation to the best of my knowledge have not been reasonable or scientifically studied in Nigeria.

Considering the act that Nigeria capital market. Is under development assessing relevant information was discover pain staking there were no easy reliable published data on divided announcement as it is prevent in other advanced economic like USA limited period of time and unavailability of appropriate research facilities contribute their quota as hindrance to this research work.

But base on the jew available relevant data, decision was made to address this research work on a small sample size and upon securities on the first tier market so that to give dividend announcement in information starting from the ones previously announced. This information will affect the stock prices spontaneously. And at the this research will equally lends credence to the observation that Nigeria capital market is efficient in the semi strong form.

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CHAPTER ONE

INTRODUCTION

BACKGROUND TO THE PROBLEM

The availability of information is crucial to the successful pursuance of virtually every human endeavor. However, Hirshleijer and Riley (1979) observed that in order for any particular piece of information to be beneficial to the user, it must have precise definition and value. While the definition relates to the message about the various events that may happen, the value is about the payoffs likely to be derived by acting on the message received. If a message is not understood by the people for whom it is meant, no action may be taken. If an action is taken at all, it may be a wrong one. Even when the message is understood by the people concerned, their reaction may differ from one another depending on the values perceived to be derived from acting on the message. The values derivable from the message may also be different among people depending on the message as well as the perceived net benefits or utility resulting from taking actions.

Several actions may be taken after receiving an information. Some of the actions may be Optimal, while others may be sub-optimal. The optimal action was defined by Copeland & Weston (1983)2 as the product of the conditional probability of an event taken place given the receipt a message and the utility resulting from taking an action, given that a particular event has occurred. There is also the marginal probability of receiving a message, the optimal action taken on receiving the message and the expected utility to be derived, given the arrival of the message.

Problems arise when economic agents fail to act on relevant information. Such in action may be due to lack of understanding of the message being put across or due to lack of resources to benefit from the information. For example, firms may release their dividend figures to the Capital market if the information contained in released dividend is not understood by the market participants and investors, appropriate portfolio adjustments may not be made through trading of shares. If on the other hand, investors react appropriately to dividend announcements by adjusting their portfolios, which in turn manifests in share price changes, firms may not understand why the market determined their firms' share prices the way it has done, if they also do not understand the message being put across by investors. It is therefore important for both the firms and investors to understand information available in the capital market. The understanding of the available information will go a long way to enhance the quality of decision made by firms and investors.

There is no gain saying in the fact that firms take various decisions about their operation on daily basis. These decisions can however be classified into three broad categories. These are production, investment and finance decisions. These are decisions should be optimal if the intended results are to be attained. With regard to investments, firms face decisions on optimum combination of real and monetary assets to be invested with a view to establishing and maintaining the productive process necessary to produce the optimum level of output from the optimum combination of factor inputs. The third type of decision the finance decisions concern the optimum combination of resources of money capital required to finance the optimum assets investments. These three major decisions are interdependent. For instance, money capital is required to produce goods and services. Thus, the decision nexus, which should be optimal, confront firms from time to time.

Firms do not take decisions in isolation. Rather, they take cognizance of happenings in the stock markets where their long-term money capital is raised in the form of equities and / or bonds. Both the firms and investors operate in the stock markets, with the former playing the role of producers / borrowers, while the latter function as savers or investors. The adequate understanding of available information is particularly important in the stock markets where securities are traded. It is the understanding of publicly available information which determines to a large extent, whether or not securities will be appropriately priced.

The perceived value of information arising in the stock markets depends on whether or not it reveals any new thing to the market participants. If no new message is contained in the information, security prices may not be affected. It is also possible for the information arriving in the market to be underutilized. Fama (1976) aptly noted this obvious divergence between publicly available information and information utilized by the market in determining security prices in "Reply to Efficient Capital Market Comments". The underutilization of publicly available information may be due to the inability of market participants to understand its full ramifications. It may however, be due to intervention by capital market regulations E.g. Securities &

Exchange Commission or the stock Exchange. In Nigeria, the Nigerian stock Exchange regulates share pricing by imposing a cap on the movement, up or down of prices on any trading day.

There are several information generating events that affect stock prices. For example, earnings announcements, merges & acquisition announcements, dividend announcements etc. This study intends to utilize dividend announcements as the relevant information set.

STATEMENT OF THE PROBLEM

It is important for the stock market to correctly determine security prices. This is because the resulting prices serve as a signal of relative attractiveness and yield to investors. Share prices, if correctly determined also serve as an index of performance of the various firms whose shares are being trade. For example, the share prices of profitable firms should be higher than those of loss-sustaining firms, all things being equal.

The effectiveness of share prices being a good measure of firms performance in the Nigerian Stock Market is however, rather limited. For instance, the Nigerian stock Exchange imposes a cap on movement of share prices in either direction, on any trading day. This action may prevent share prices from adjusting speedily to dividend information. Thus no matter how handsome firms profits are in any particular year, the prices of their shares around dividend announcements cannot rise beyond a specified limit. The reverse also holds for loss-sustaining firms. This is a big problem plaguing the market.

There is also the problem of trading volume being low when compared to other emerging stock markets. The thinness of the Nigerian stock market is attributable largely to the buy and hold behavior of majority of Nigerian investors. Alile (1994) 4 observed that in the Nigerian stock Market, institutional investors constitute the bulk of shareholders. In addition, foreign investors hold not less than 40% of equity market Capitalization. If these two groups of shareholders who rarely trade their shares are added together, one is therefore not surprised about the relatively low turnover of shares in Nigeria. When share are not frequently traded, their prices may not change for the duration in which they are not traded. The more frequently shares are traded, therefore, the more frequently their prices are appropriately determined by the market.

Another problem plaguing the Nigerian stock Market is the effect of monetary policy which may not favor the growth of the market. For instance, interest rate remained largely administered in Nigeria since in dependence in 1960. With the exception of 1988-1990, 1992-1993 and 1996 to present day when interest rates were allowed to be market determine subject to a specked maximum spread between average cost of bank fund, and their lending rates, ceiling where imposed on interest rate. Usually, such ceilings were how and they encouraged companies to rely an financing their projects with rather cheap browned funds from banks. This implies less recourse to the capital market for financial and there fore less trading activity on the Nigeria stock exchange.

There is no running away from the fact that thee above mentioned problem may individual or severally impede stock market efficiency. The extent to which market efficiency may be hinded by the problem however remain debatable. It is on the background of the fore going problems that this study examines the efficiency of the Nigeria capital market using dividual announcement as the relevant information set. Because dividend announcement is only one of the many information generating event that have a direct impact on stock prices constant.

OBJECTIVE OF THE RESEARCH

This study has the over all objective of determine the efficiency of the Nigeria capital market by using dividend announcement as the relevant information set. Specifically the objectives of the study are:

To find out the determination of share prices in the Nigeria capital market and the extent to which dividual announcement can be attributable as a determinant.

To determined whether the Nigeria capital market is effect and its form of efficiency.

To determine the duration taken by share prices to July reflect the information contained in dividual announcements.

To determine the market reaction to change in dividend level.

To make policy recommendation based on the finding of the study

RESEARCH QUESTIONS

In the face of the problem identified in this study one may be constrained to ask whether the Nigeria capital market can be efficient at all? For example, can investors have adequate information require to invest wisely, even with the existence of a few security analysis in the market

What about the apparently frequently "dead" telephone which may repeatedly thwart investors effort or consult their brokers investment adviser and on resistance of companies in which they hold shares?

Does the Nigeria capital market respond to any major

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