

## **Effect of Dividend Distribution on Price Volatility In BIST**

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### **Extensive Summary**

Factors that affect the stock price of companies and how these factors fluctuate on the stock price is an important issue for company management, investors and other people and institutions that are associated with the company. Many studies have been conducted on the effect on stock price of dividend distribution policy which are one of these factors, but no consensus has been reached.

It is important decision for company management that wants to maximize company value that the profit from the company operations will be distributed or not be distributed and if the dividend is to be distributed, which dividend distribution type should be used. On the other hand; such as expectation, preference and tax bracket they are in of investorsthat want to get maximum benefit from their savings many factors affect the stock price of the companies. While investors in the high tax bracket prefer companies that pay not dividend or companies that pay small amounts of dividend, investors who want to stable income will prefer stocks of companies that pay high amounts of dividend. Therefore, the dividend distribution decisions of the companies have an effect on the stock price.

The purpose of this study, companies distributing dividend, according to dividend distribution types, starting from the date of board of directors/general meeting, to the date of dividend distribution and after the date of dividend distribution, is to determine the effect of the dividend distribution on stock price and is to determine which dividend distribution type is more effective than the other dividend distribution types on stock price.

The data used in the study were selected from companies traded in BIST 100 between 2010 and 2017. However; financial institutions, holdings and sports companies were not included in the study due to special reporting periods. In the study, profit distribution types are divided into four groups: cash dividend distribution, installment dividend distribution, stock dividend distribution and both cash and stock dividend distribution. Firstly, the dates of the board of directors and general meetings related to dividend distribution, dividend distribution dates and types of dividends distributed

were determined for companies that were traded in BİST 100 and distributed dividends in 2010-2017 period. The each company's stock prices were taken 90 days before from the distribution date and 60 days after from the distribution date, every 10 days. The analysis was made in two stages. In the first stage of the analysis, according to dividend distribution types, the direction and severity of fluctuations in stock price were determined by taking the average of every 10 days stock prices and was shown on the graph. In the second stage of the analysis, the Wilcoxon Signed Rank Test was used to analyze, according to each dividend distribution type, to determine whether there was a statistically significant difference between stock prices, before dividend distribution and after dividend distribution, every 10 days. In this analysis, it is aimed to determine whether there is a statistical difference between stock prices of companies distributing dividends and to determine which dividend distribution type is more effective on the stock price.

In cash dividend distribution, the stock price is start to increase with the dividend distribution proposal of the board of directors and there is a statistical difference between the stock prices in cash dividend distribution (between; -80th and -90th, -70th and -80th, -50th and -60th, -40th and -50th, -30th and -40th, 10th and 20th). Moreover, in the distribution of dividends in the form of both cash and stock, there is also a statistical difference between the stock price (between; -80th and -90th, -60th and -70th, -50th and -60th) There was no statistically significant difference in stock prices between all day periods in the other types of dividend distribution. However, all types of dividend distribution affect on the stock price.

A significant part of the non-financial and non-sports companies that are traded in the BİST 100 implement the cash dividend distribution policy. The widespread distribution of cash dividend shows that the expectation of investors is in this direction.

For the last few years, installment dividend distribution has been implemented by our country's companies. For this reason, very few companies traded in BİST 100 apply this dividend payment type as a dividend distribution policy. Despite having made profit, companies that have not paid dividend for several years, but later have decided to distribute this undistributed profits in cash, may prefer to pay dividends in installments because they will pay high amounts of dividends. In the study, it was seen that stock prices had a continuous upward trend in installment dividend distribution. The reason for this is the beginning of the signal for both the second and the third installment dividend payments after the first installment payment.

Publicly traded companies can increase of capital by bonus issue. They can use two methods for it. First method is internal resources (revaluation fund, capital gain, reserves etc.) and second method is to add dividend to the capital. In the study, it was observed that the companies traded in BİST 100 increased the capital by bonus issue both from internal resources and from dividend in 2010-2017 period. However, it was determined that companies traded in the BİST 100 preferred more bonus issue from dividends.

Finally, dividend distribution in the form of both cash and stock is not common in non-financial and non-sports companies traded in BİST 100, but it is the most preferred type of dividend distribution after cash dividend distribution. Since this type of dividend distribution has the effect of both cash dividend distribution and stock dividend distribution, companies can balance negative effects of both cash

dividend distribution and stock dividend distribution by distributing dividend form of both cash and stock.

In the study, it was concluded that four dividend distribution types have an effect on stock price. If we summarize the result of the study; firstly, installment dividend distribution and stock dividend distribution have little effect on stock price. In addition this, when dividend distribution form of both cash and stock begins to be heard on the market, stock price begins to rise sharply, but the severity of stock price volatility shows a decreasing in following days. In the case of cash dividend distribution which is the other type of dividend payment, when dividend payment decision of the board of directors is heard on the market, stock price begin to rise sharply and stock price continues to increase until the date of the general meeting. Moreover, after the cash dividend payment, the stock price continues to upward trend.

As a result; other conditions are constant, on the stock price, cash dividend distribution is more effective than the other types of dividend distribution. The violent reaction of the market begins positively with the announcement of the cash dividend distribution proposal on the market, and the positive effect on the stock price also continues after the dividend distribution. Therefore, investors find cash dividend distribution more attractive than the other types of dividend distribution because investors think that the cash income they will get today is more valuable than the income to be achieved in the coming periods.