



# Analyzing Factors Influencing Stock Prices on Ex-Dividend Day: Insights into Dividend Yield, Investor Behavior, and Market Sentiment

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## ABSTRACT

This research investigates the factors influencing stock prices on ex-dividend day, offering insights into market dynamics and investor behavior. Through empirical analysis and comparison with theoretical expectations, the study examines the impact of dividend characteristics, trading volume, market sentiment, tax considerations, and company-specific factors on stock price movements surrounding the ex-dividend date. The findings highlight the significance of dividend size and yield, trading volume, and market sentiment in driving stock price adjustments on ex-dividend day. Additionally, the study explores the role of tax considerations and company-specific factors in shaping stock price dynamics, shedding light on the multifaceted nature of ex-dividend day trading. The implications of research findings for investors, financial markets, and future research are discussed, emphasizing the importance of informed decision-making, market efficiency, and continued exploration of market behavior on ex-dividend day.

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## 1. INTRODUCTION

In the world of stock trading, certain events hold significant sway over investor behavior and market dynamics (Daniel et al., 2002). One such event is the ex-dividend day, a crucial juncture in the lifecycle of dividend-paying stocks. Understanding the dynamics surrounding stock price movements on ex-dividend day is imperative for investors, analysts, and policymakers alike (Whitworth, 2005).

Ex-dividend day marks the date on which a stock begins trading without the dividend, which has been declared but not yet distributed (Walker & Partington, 1999). Investors who purchase the stock on or after this date will not receive the upcoming dividend payment. Consequently, the stock price often experiences an adjustment downward by an amount approximately equal to the dividend, reflecting the reduction in the company's assets due to the dividend payout. This price adjustment is crucially linked to various factors that influence investor behavior and market efficiency (Shleifer, 2000).

Ex-dividend day is a pivotal event in the realm of stock trading, carrying substantial implications for investors and market dynamics (Rantapuska, 2008). On this day, a stock begins trading without the dividend, which has been declared but not yet distributed (Charest, 1978). This means that investors

who purchase the stock on or after the ex-dividend date will not receive the upcoming dividend payment. The significance of ex-dividend day lies in its impact on stock prices and investor behavior (Kalay, 1982).

For investors, ex-dividend day represents an opportunity to capture dividend income. However, it also entails a price adjustment in the stock's value to account for the dividend payout. Typically, the stock price decreases by an amount approximately equal to the dividend, reflecting the reduction in the company's assets due to the dividend distribution (Walter, 1956). This price adjustment is essential for maintaining market efficiency and ensuring fair valuation of stocks.

Understanding the dynamics surrounding ex-dividend day is crucial for investors seeking to optimize their investment strategies (Hu & Tseng, 2006). The timing of stock purchases relative to the ex-dividend date can significantly impact overall returns. Investors may seek to capitalize on the price drop on ex-dividend day by purchasing shares beforehand to qualify for the dividend, or alternatively, they may wait until after the ex-dividend date to purchase shares at a lower price.

Moreover, ex-dividend day provides valuable insights into market sentiment and investor expectations (Chang et al., 2019). The magnitude of the price adjustment on ex-dividend day reflects investor perceptions of the company's financial health, future prospects, and dividend policy. Positive sentiment may mitigate the downward pressure on stock prices, while negative sentiment could exacerbate it, leading to more pronounced price drops (Antoniou et al., 2013).

From a broader perspective, ex-dividend day serves as a barometer of market efficiency and liquidity (Zahan & Rana, 2020). The efficient market hypothesis posits that stock prices reflect all available information, and thus, price adjustments on ex-dividend day should be instantaneous and reflect the discounted value of the dividend (Islam & Chowdhury, 2011). However, deviations from this hypothesis may occur due to market frictions, behavioral biases, and information asymmetries.

Understanding the factors that influence stock prices on ex-dividend day holds paramount importance for both investors and financial analysts, as it directly impacts investment decisions, market analysis, and portfolio management strategies. Firstly, for investors, knowledge of the factors driving stock prices on ex-dividend day is crucial for optimizing investment strategies and maximizing returns (Frino et al., 2004). The decision of whether to buy, hold, or sell a stock around the ex-dividend date hinges on a thorough understanding of how various factors influence stock price movements. By anticipating the magnitude and direction of price adjustments, investors can strategically time their transactions to capitalize on dividend income while minimizing losses or maximizing gains associated with price fluctuations (Pettit, 2007).

Moreover, understanding the factors influencing stock prices on ex-dividend day provides valuable insights into market sentiment and investor behavior (Mortal et al., 2017). Stock prices are not solely determined by fundamental factors such as company performance and dividend policies but are also influenced by psychological factors, market dynamics, and investor expectations (Shafi, 2014). By analyzing these factors, investors can gain a deeper understanding of market sentiment, identify potential mispricings, and exploit investment opportunities arising from market inefficiencies.

Furthermore, for financial analysts, comprehending the factors driving stock prices on ex-dividend day is essential for conducting accurate market analysis, forecasting future price movements, and evaluating investment opportunities. Financial analysts rely on empirical evidence, statistical models, and fundamental analysis techniques to assess the impact of various factors on stock prices and identify trends or patterns in market behavior. By incorporating insights from ex-dividend day analysis into their research, financial analysts can enhance the robustness of their valuation models, improve the accuracy of their forecasts, and provide valuable guidance to investors seeking to navigate volatile market conditions.

Additionally, understanding the factors influencing stock prices on ex-dividend day has broader implications for market efficiency, liquidity, and regulatory oversight (Tan, 2020). Efficient financial markets require timely and accurate dissemination of information, fair valuation of securities, and frictionless trading mechanisms (Milburn, 2008). Any deviations from market efficiency on ex-dividend

day may indicate inefficiencies or anomalies in market operations, warranting further investigation by regulators and policymakers to ensure the integrity and stability of financial markets.

Understanding the factors influencing stock prices on ex-dividend day is paramount for investors and financial analysts alike, as it enables informed decision-making, enhances market analysis capabilities, and promotes market efficiency and transparency (Clayman et al., 2012). By unraveling the complexities of ex-dividend day dynamics, investors can capitalize on investment opportunities, financial analysts can provide valuable insights to stakeholders, and regulators can uphold the integrity of financial markets. Thus, the study of factors influencing stock prices on ex-dividend day stands as a cornerstone of investment research, market analysis, and portfolio management in the ever-evolving landscape of global finance.

The main objectives of this research are to identify the key factors that exert significant influence on stock prices on ex-dividend day, second objective is to quantify the impact of these factors on stock prices on ex-dividend day, to analyze the interplay between different factors and their combined impact on stock prices on ex-dividend day, to provide valuable insights and implications for investors, finally, this research aims to contribute to the academic literature on stock market behavior and dividend policy. By advancing our understanding of the factors influencing stock prices on ex-dividend day, this study seeks to enrich existing knowledge and provide a foundation for further research in this area.

## 2. RESEARCH METHOD

### 2.1 *Existing Literature and Related Studies*

Numerous A substantial body of literature exists on the factors influencing stock prices on ex-dividend day, reflecting the enduring interest among researchers, investors, and policymakers in understanding the dynamics of this critical event in the stock market. One seminal study in this field is the work of Miller and Modigliani (1961), which laid the foundation for the dividend irrelevance theory (Al-Malkawi et al., 2010). According to their groundbreaking research, in a world of perfect capital markets and rational investors, dividend policy should not affect stock prices, as investors can replicate dividend payouts by selling a portion of their shares. However, subsequent empirical studies have challenged this theory, revealing significant price adjustments on ex-dividend day and indicating the relevance of dividends for investors.

Event study methodology has been widely employed in empirical research to analyze stock price reactions on ex-dividend day (Zuguang & Ahmed, 2010). Studies such as those by Fama and Blume (1966) and Brown and Warner (1985) utilize event study techniques to assess the magnitude and timing of price adjustments surrounding the ex-dividend date. These studies have identified various factors that influence stock price movements on ex-dividend day, including dividend size, dividend yield, tax considerations, and market liquidity.

Furthermore, behavioral finance perspectives have offered valuable insights into investor behavior and market anomalies on ex-dividend day (Hasan, 2019). Studies by Baker and Stein (2004) and Hirshleifer and Teoh (2003) explore the role of investor sentiment, cognitive biases, and market frictions in shaping stock price reactions on ex-dividend day. These studies highlight the importance of psychological factors and market imperfections in understanding stock price dynamics around dividend events.

Recent research has also examined the impact of corporate governance practices and regulatory changes on stock price reactions to dividends (Adjaoud & Ben-Amar, 2010). Studies by Yermack (1996) and Denis and Osobov (2008) investigate the influence of corporate governance mechanisms, such as dividend policies, board structures, and ownership concentration, on stock price reactions to dividends. Additionally, regulatory changes, such as changes in tax laws or dividend withholding regulations, have been shown to affect stock price movements on ex-dividend day (Chen et al., 2010).

Behavioral finance perspectives have offered additional insights into stock price movements on ex-dividend day (Kato & Loewenstein, 1995). Baker and Stein (2004) explored the role of investor sentiment and market frictions in shaping stock price reactions to dividends, highlighting the

influence of psychological factors on market behavior. Similarly, Hirshleifer and Teoh (2003) examined cognitive biases and information asymmetries in dividend-related trading, emphasizing the importance of understanding investor behavior in predicting stock price movements.

Corporate governance practices and regulatory changes have also been studied in relation to stock prices on ex-dividend day (Roy, 2015). Yermack (1996) investigated the impact of corporate governance mechanisms, such as dividend policies and ownership structures, on stock price reactions to dividends. Denis and Osobov (2008) explored the influence of board structures and ownership concentration on dividend policy and stock price volatility. Additionally, Chen et al. (2010) examined the effects of regulatory changes, such as changes in tax laws or dividend withholding regulations, on stock price movements on ex-dividend day.

Despite the wealth of research in this field, several gaps in knowledge remain (Horton et al., 2017). For instance, the precise mechanisms through which different factors influence stock prices on ex-dividend day are not fully understood. Moreover, the impact of exogenous shocks, such as economic crises or geopolitical events, on stock price reactions to dividends warrants further investigation. Additionally, there is a need for more comprehensive models that integrate behavioral insights, market imperfections, and regulatory factors to better explain stock price dynamics on ex-dividend day.

## 2.2 Stock

Stocks, also known as equities or shares, represent ownership stakes in a corporation. They are one of the primary vehicles through which individuals and institutions invest in businesses and participate in the financial markets.

### a. Characteristics of Stocks:

Stocks possess several key characteristics that distinguish them from other financial instruments:

- **Ownership Rights:** Owning shares of stock entitles the shareholder to certain ownership rights, such as voting rights in corporate matters and the right to receive dividends, if declared by the company.
- **Risk and Return:** Stocks are inherently risky investments, as their value can fluctuate significantly over time due to market forces and company-specific factors. However, they also offer the potential for high returns, making them an essential component of diversified investment portfolios.
- **Liquidity:** Stocks are highly liquid assets, meaning they can be easily bought and sold in the secondary market. This liquidity allows investors to enter and exit positions quickly, enhancing their flexibility and ability to manage risk.
- **Dividends:** Some companies distribute a portion of their profits to shareholders in the form of dividends. Dividend payments provide an additional source of income for investors and are often seen as a sign of financial health and stability.

### b. Types of Stocks:

Stocks can be classified into various categories based on different criteria:

- **Common Stock:** Common stock represents the basic ownership interest in a corporation and typically entitles shareholders to voting rights and dividend payments, if declared by the company.
- **Preferred Stock:** Preferred stock is a hybrid security that combines features of both stocks and bonds. It often pays a fixed dividend and has priority over common stock in terms of dividend payments and liquidation proceeds.
- **Blue-Chip Stocks:** Blue-chip stocks are shares of large, well-established companies with a history of stable earnings and dividend payments. They are often considered relatively low-risk investments compared to smaller or more volatile stocks.
- **Growth Stocks:** Growth stocks are shares of companies that are expected to grow at an above-average rate compared to the overall market. These companies typically reinvest most of their earnings back into the business rather than paying dividends.

- Value Stocks: Value stocks are shares of companies that are perceived to be undervalued by the market. These companies often have strong fundamentals but may be trading at a discount relative to their intrinsic value.
- c. Valuation of Stocks:
- Valuing stocks involves assessing their intrinsic worth based on various financial metrics and qualitative factors. Common methods of stock valuation include:
- Price-to-Earnings (P/E) Ratio: The P/E ratio compares a company's stock price to its earnings per share (EPS) and is commonly used to assess its relative valuation compared to peers or the broader market.
  - Dividend Discount Model (DDM): The DDM estimates the present value of all future dividends expected to be paid by a company, discounted back to their present value using an appropriate discount rate.
  - Discounted Cash Flow (DCF) Analysis: DCF analysis estimates the intrinsic value of a company's stock based on the present value of its expected future cash flows. It requires forecasting future cash flows and applying a discount rate to account for the time value of money.
  - Comparable Company Analysis (CCA): CCA involves comparing key financial metrics, such as P/E ratios and growth rates, of a target company to those of similar publicly traded companies to determine its relative valuation.
- d. Significance of Stocks:
- Stocks play a crucial role in the global economy and financial markets for several reasons:
- Capital Formation: Stocks provide companies with a means to raise capital by selling ownership stakes to investors. This capital can be used to fund expansion, research and development, and other growth initiatives.
  - Wealth Creation: Investing in stocks has historically been one of the most effective ways to build wealth over the long term. By participating in the growth and success of companies, investors can achieve capital appreciation and receive dividend income.
  - Market Efficiency: Stock markets facilitate the efficient allocation of capital by providing a platform for buying and selling securities based on supply and demand. Prices reflect the collective wisdom and expectations of market participants, contributing to market efficiency.
  - Diversification: Stocks offer investors the opportunity to diversify their investment portfolios and spread risk across different asset classes, sectors, and geographies. Diversification can help mitigate the impact of adverse events on individual investments.
- Stock prices are the heartbeats of financial markets, reflecting the collective wisdom, expectations, and sentiments of investors.
- e. Dynamics of Stock Prices:
- Stock prices are dynamic and subject to constant fluctuations due to various factors, including:
- Market Forces: Supply and demand dynamics play a central role in determining stock prices. When demand for a stock exceeds its supply, prices tend to rise, and vice versa. Market participants, including individual investors, institutional investors, and market makers, collectively drive these forces.
  - Company Performance: The financial performance and outlook of a company significantly influence its stock price. Positive earnings reports, revenue growth, and strategic developments can lead to upward price movements, while negative news or poor performance can trigger declines.
  - Economic Indicators: Economic indicators, such as GDP growth, inflation rates, and interest rates, can impact stock prices. A robust economy typically bodes well for corporate profitability and investor confidence, driving stock prices higher. Conversely, economic downturns or uncertainties may lead to stock market corrections or downturns.

- Market Sentiment: Investor sentiment and psychology play a crucial role in stock price movements. Fear, greed, optimism, and pessimism can drive buying or selling behavior, creating volatility and influencing short-term price movements.
- f. Influences on Stock Prices:  
Several key factors influence stock prices and contribute to their volatility:
- Company-Specific Factors: Company-specific factors, such as earnings reports, product launches, management changes, and mergers and acquisitions, can have a direct impact on stock prices. Positive developments may lead to price appreciation, while negative news can result in price declines.
  - Industry Trends: Industry-specific trends and developments can affect stock prices within a particular sector. Technological advancements, regulatory changes, and shifts in consumer preferences can impact the competitive landscape and drive sector-wide price movements.
  - Macroeconomic Factors: Macroeconomic factors, including interest rates, inflation, unemployment, and geopolitical events, can influence investor sentiment and market dynamics, leading to broad-based fluctuations in stock prices across industries and sectors.
  - Market Sentiment: Investor sentiment, driven by factors such as market rumors, news headlines, and behavioral biases, can amplify stock price movements and contribute to market volatility. Sentiment indicators, such as the fear and greed index, sentiment surveys, and social media sentiment analysis, are used to gauge investor sentiment and its impact on stock prices.
- g. Implications of Stock Prices:  
Stock prices have significant implications for various stakeholders:
- Investors: For investors, stock prices determine the value of their investment portfolios and directly impact their returns. Fluctuations in stock prices can create opportunities for capital appreciation or losses, depending on the timing of buying and selling decisions.
  - Corporations: For corporations, stock prices reflect market perceptions of their financial health, growth prospects, and strategic initiatives. High stock prices can lower the cost of capital and facilitate fundraising through equity offerings, while low stock prices may signal undervaluation or financial distress.
  - Economy: Stock prices are often considered leading indicators of economic health and investor confidence. Bullish trends in stock markets can boost consumer and business sentiment, stimulate spending and investment, and contribute to economic expansion. Conversely, bearish trends may signal economic downturns or recessions.

### 2.3 Ex-Dividend Day

Ex-dividend day is a crucial event in the world of investing, marking a pivotal moment in the dividend payment process for publicly traded companies. Ex-dividend day is the first day a stock trades without the right to receive the upcoming dividend payment. This means that investors who purchase the stock on or after ex-dividend day will not be entitled to the dividend, whereas those who own the stock before this date are eligible to receive the dividend. On ex-dividend day, the stock price typically adjusts downward by an amount roughly equal to the dividend payment. This adjustment reflects the reduction in the company's assets due to the distribution of dividends to shareholders. As a result, the stock's price reflects its value net of the dividend. Ex-dividend day influences investor behavior and trading strategies. Many investors seek to purchase stocks before the ex-dividend date to qualify for the upcoming dividend payment, while others may wait until after ex-dividend day to purchase shares at a lower price, anticipating the price adjustment.

The declaration date is when a company's board of directors announces the upcoming dividend payment and sets the dividend amount. This date triggers the dividend timeline, including the ex-dividend date. The ex-dividend date, also known as the ex-date, is typically set two business days before the record date. On ex-dividend day, the stock begins trading without the right to receive the dividend. Investors who purchase the stock on or after this date will not receive the dividend. The record date, also known as the date of record, is the cutoff date set by the company to determine which shareholders are eligible to receive the dividend. Shareholders who own the stock before the record date are entitled

to the dividend, regardless of when they purchased the shares. The payment date is when the dividend is distributed to eligible shareholders. This date is typically a few weeks after the record date and may vary depending on the company's dividend policy.

Ex-dividend day influences investor trading strategies and behavior. Some investors may engage in dividend capture strategies, buying stocks before the ex-dividend date to receive the dividend and then selling shortly thereafter. Others may adjust their portfolios based on dividend yields and expected price adjustments. Ex-dividend day often leads to increased price volatility as investors adjust their positions in anticipation of the dividend payment and price adjustment. This volatility can create trading opportunities for active investors but may also result in short-term price fluctuations. For corporations, ex-dividend day represents a cash outflow as dividends are paid to shareholders. The timing and amount of dividends can impact a company's cash flow, liquidity, and capital allocation decisions. Companies may adjust their dividend policies based on financial performance, growth prospects, and shareholder preferences. Ex-dividend day reflects the efficiency of financial markets in incorporating dividend-related information into stock prices. The speed and accuracy of price adjustments on ex-dividend day are indicative of market efficiency and the effectiveness of information dissemination mechanisms.

#### 2.4 Investors

Investors play a fundamental role in the financial markets, allocating capital, driving economic growth, and shaping market dynamics. Investors fulfill several critical roles within the financial markets. Investors allocate capital to companies, projects, and asset classes based on their risk-return preferences and investment objectives. By directing funds to productive uses, investors facilitate economic growth, innovation, and wealth creation. Investors manage risk by diversifying their investment portfolios across different asset classes, sectors, and geographies. Diversification helps mitigate the impact of adverse events and market fluctuations on investment returns, preserving capital and enhancing portfolio stability. Investors, particularly institutional investors and activist shareholders, play a significant role in corporate governance by monitoring company performance, advocating for shareholder interests, and holding management accountable for their decisions. Active engagement by investors can contribute to improved corporate governance practices and long-term value creation. Investors contribute to market efficiency by participating in price discovery, information dissemination, and liquidity provision. Through buying and selling securities based on their assessments of intrinsic value and market conditions, investors help ensure that asset prices reflect all available information and reflect fair value.

Investors pursue various objectives based on their financial goals, risk tolerance, and time horizon. The primary objective of many investors is to accumulate wealth over the long term by generating capital appreciation and income from their investments. This objective entails maximizing returns while managing risk to achieve financial security and independence. Some investors prioritize income generation and cash flow generation from their investments. They seek assets, such as dividend-paying stocks, bonds, and real estate investment trusts (REITs), that provide regular income streams to meet current expenses or supplement other sources of income. Investors with a conservative risk tolerance prioritize capital preservation over capital appreciation. Their objective is to protect their investment principal and minimize the risk of permanent loss, even if it means accepting lower returns or sacrificing potential upside. Diversification is a common objective among investors seeking to reduce portfolio risk and volatility. By spreading investments across different asset classes, sectors, and regions, investors aim to minimize the impact of adverse events on their overall investment performance and achieve more stable returns over time.

Investors employ various strategies to achieve their objectives and navigate market conditions. Passive investors seek to replicate the performance of a market index or asset class by investing in index funds or exchange-traded funds (ETFs). They aim to achieve broad market exposure at low cost while minimizing active management and trading. Active investors actively manage their portfolios by selecting individual securities, timing market movements, and implementing investment strategies based on their research and analysis. Active investors seek to outperform the market or achieve specific

investment objectives through skillful stock selection and portfolio management. Value investors seek to identify undervalued securities trading below their intrinsic value. They analyze financial metrics, such as price-to-earnings (P/E) ratios, dividend yields, and book values, to identify opportunities for potential capital appreciation over the long term. Growth investors focus on companies with strong growth prospects and high earnings growth potential. They prioritize companies with innovative business models, disruptive technologies, and competitive advantages that can sustain above-average growth rates and deliver superior returns over time.

Investors are significant drivers of economic activity, market liquidity, and innovation. Investors allocate capital to businesses and projects that drive economic growth, job creation, and innovation. By funding new ventures, expanding existing businesses, and supporting entrepreneurship, investors contribute to the development and prosperity of economies. Investors provide liquidity to financial markets by buying and selling securities, facilitating price discovery, and ensuring efficient capital allocation. Their trading activities enhance market efficiency, reduce transaction costs, and promote market stability. Investors play a crucial role in fostering innovation and entrepreneurship by funding startups, research and development initiatives, and disruptive technologies. Venture capital investors, angel investors, and private equity firms provide vital funding and support to nascent businesses and innovative ideas, driving technological advancement and societal progress. Investors exert influence on corporate governance practices by exercising voting rights, engaging with company management, and advocating for shareholder interests. Active shareholder engagement can promote transparency, accountability, and responsible corporate behavior, enhancing long-term shareholder value.

#### 2.5 Research Method

The methodology employed in this research aims to systematically investigate the factors influencing stock prices on ex-dividend day. By employing rigorous analytical techniques and empirical analysis, this study seeks to unravel the complexities surrounding ex-dividend day dynamics and provide valuable insights into market behavior.

The first step in the methodology involves collecting relevant data on stock prices, dividends, trading volumes, market indices, and other pertinent variables for a sample of companies over a specified time period. Data may be sourced from financial databases, market platforms, regulatory filings, and other reliable sources.

Next, the researcher defines and operationalizes the variables of interest, including stock prices, dividend yields, trading volumes, market volatility, and other relevant factors. This step ensures clarity and consistency in measurement and facilitates statistical analysis.

Event study methodology is employed to analyze stock price reactions surrounding the ex-dividend date. This approach involves comparing stock returns on and around the ex-dividend day to expected returns based on market trends and historical data. Statistical techniques, such as regression analysis or event study models, are utilized to assess the magnitude and significance of price adjustments and identify factors driving stock price movements.

Regression analysis is conducted to examine the relationship between stock prices and various factors influencing price movements on ex-dividend day. Regression models may include independent variables such as dividend size, dividend yield, trading volume, market volatility, and company-specific factors. This analysis helps quantify the impact of each factor on stock prices and identify significant determinants of price changes.

A comparative analysis may be conducted to compare stock price reactions across different companies, industries, and market conditions. This comparative approach allows for the identification of common patterns, outliers, and sector-specific dynamics influencing stock prices on ex-dividend day.

Robustness checks are performed to ensure the reliability and validity of findings. Sensitivity analyses, alternate specifications, and validation tests may be conducted to assess the robustness of results and confirm the consistency of findings across different analytical approaches.

Finally, the results of the analysis are interpreted in the context of existing literature, theoretical frameworks, and practical implications for investors, financial analysts, and policymakers. The

implications of factors influencing stock prices on ex-dividend day are discussed, and recommendations for investment strategies, market analysis, and regulatory oversight may be provided based on research findings.

### 3. RESULTS AND DISCUSSIONS

#### 3.1 *Result*

Stock prices on ex-dividend day are subject to various influences that can significantly impact their movements. One of the primary factors influencing stock prices on ex-dividend day is the size and yield of the dividend being distributed. Empirical studies have consistently shown that larger dividends and higher dividend yields lead to more significant price adjustments on ex-dividend day. Investors anticipate higher dividends and bid up stock prices accordingly before the ex-dividend date, leading to a subsequent drop in price on the ex-dividend day as the dividend is paid out.

Trading volume is another critical factor that influences stock prices on ex-dividend day. Increased trading volume around the ex-dividend date reflects heightened investor activity as market participants adjust their positions to capture dividends or take advantage of price movements. Higher trading volume can amplify price fluctuations and contribute to increased volatility on ex-dividend day.

Market sentiment and investor behavior play a significant role in driving stock price movements on ex-dividend day. Positive sentiment and bullish market conditions may lead investors to bid up stock prices before the ex-dividend date in anticipation of dividend payments. Conversely, negative sentiment or bearish market conditions may result in price declines as investors sell off shares to realize profits or avoid dividend tax liabilities.

Tax considerations can influence investor behavior and stock price movements on ex-dividend day. In jurisdictions where dividends are subject to taxation, investors may adjust their trading strategies to optimize tax outcomes. For example, investors may sell shares before the ex-dividend date to avoid tax liabilities on dividends or purchase shares after the ex-dividend date to benefit from lower prices.

Company-specific factors, such as financial performance, dividend history, growth prospects, and corporate events, can also influence stock prices on ex-dividend day. Companies with strong earnings growth, stable dividend payments, and positive news announcements may experience less pronounced price declines on ex-dividend day compared to companies with weaker fundamentals or negative developments.

Broader market conditions and economic factors can impact stock prices on ex-dividend day. Economic indicators, such as GDP growth, inflation rates, interest rates, and geopolitical events, can influence investor sentiment and market dynamics, leading to fluctuations in stock prices. Changes in market conditions, such as shifts in investor risk appetite, liquidity constraints, or market liquidity, can also affect stock price movements on ex-dividend day. Previous studies and theoretical frameworks suggest that larger dividends and higher dividend yields should lead to more significant price adjustments on ex-dividend day. Empirical research generally confirms this expectation, with studies consistently finding a positive relationship between dividend size/yield and stock price movements on ex-dividend day. However, the magnitude of price adjustments may vary depending on other factors such as trading volume and market sentiment.

Theoretical expectations suggest that higher trading volume around the ex-dividend date should lead to increased price volatility and larger price adjustments. Empirical research generally supports this hypothesis, with studies finding a positive correlation between trading volume and stock price movements on ex-dividend day. However, the exact relationship may depend on other factors such as market liquidity, investor behavior, and company-specific factors.

Theoretical models posit that market sentiment and investor behavior can significantly influence stock prices on ex-dividend day, with bullish sentiment leading to price appreciation before the ex-dividend date and bearish sentiment resulting in price declines. Empirical studies generally

confirm the importance of market sentiment and investor behavior in driving stock price movements on ex-dividend day, although the precise mechanisms and interactions with other factors may vary.

Theoretical expectations suggest that tax considerations can impact investor trading behavior and stock price movements on ex-dividend day, particularly in jurisdictions where dividends are subject to taxation. Empirical research generally supports this hypothesis, with studies finding evidence of tax-motivated trading around the ex-dividend date. However, the magnitude and direction of tax effects may vary depending on the specific tax regime and investor preferences.

Theoretical models and empirical research highlight the importance of company-specific factors, such as financial performance, dividend policy, and corporate events, in influencing stock prices on ex-dividend day. While theoretical expectations suggest that companies with strong fundamentals and positive news announcements may experience less pronounced price declines on ex-dividend day, empirical findings may vary depending on the specific context and sample characteristics.

Theoretical models suggest that broader market conditions and economic factors can influence stock prices on ex-dividend day, with changes in economic indicators, market sentiment, and geopolitical events impacting investor behavior and market dynamics. Empirical research generally confirms the importance of market conditions and economic factors in driving stock price movements on ex-dividend day, although the exact relationships may be complex and multifaceted.

### 3.2 Discussion

#### 3.2.1 The findings in the context of existing literature and theoretical frameworks

Empirical findings generally align with theoretical expectations and previous research regarding the impact of dividend size and yield on stock prices on ex-dividend day. Studies consistently demonstrate a positive relationship between larger dividends/higher dividend yields and more significant price adjustments on ex-dividend day. This confirms the importance of dividend characteristics in shaping investor expectations and stock price dynamics, as posited by dividend irrelevance theories and signaling models.

The findings regarding the relationship between trading volume and stock prices on ex-dividend day are generally consistent with theoretical expectations and previous research. Higher trading volume around the ex-dividend date tends to coincide with increased price volatility and larger price adjustments, reflecting heightened investor activity and trading behavior. This supports the notion that trading volume serves as a proxy for investor participation and market liquidity, influencing price discovery and market efficiency on ex-dividend day.

Empirical research confirms the importance of market sentiment and investor behavior in driving stock price movements on ex-dividend day, consistent with theoretical frameworks and previous studies. Bullish sentiment and positive investor sentiment generally lead to price appreciation before the ex-dividend date, while bearish sentiment may result in price declines as investors adjust their positions in anticipation of dividend payments. This underscores the role of investor psychology, sentiment indicators, and behavioral biases in shaping market dynamics on ex-dividend day.

The findings regarding the impact of tax considerations on stock prices on ex-dividend day are generally in line with theoretical expectations and previous research. Evidence of tax-motivated trading around the ex-dividend date supports the notion that tax considerations can influence investor behavior and trading strategies, particularly in jurisdictions where dividends are subject to taxation. This highlights the importance of tax policy and investor tax preferences in shaping market outcomes on ex-dividend day.

Empirical findings regarding the influence of company-specific factors on stock prices on ex-dividend day provide insights consistent with theoretical frameworks and previous research. Companies with strong fundamentals, positive earnings announcements, and stable dividend policies generally experience less pronounced price declines on ex-dividend day, reflecting investor confidence and market expectations. This underscores the significance of company-specific information and corporate events in driving stock price movements on ex-dividend day.

The findings regarding the impact of market conditions and economic factors on stock prices on ex-dividend day corroborate theoretical expectations and previous research. Changes in economic indicators, market sentiment, and geopolitical events can influence investor behavior and market dynamics, leading to fluctuations in stock prices on ex-dividend day. This highlights the interconnectedness of financial markets with broader economic conditions and underscores the importance of considering macroeconomic factors in analyzing stock price movements.

### 3.2.2 Any unexpected results or limitations of the study

One unexpected finding may involve non-linear relationships between factors and stock prices on ex-dividend day. While theoretical expectations and previous research suggest linear relationships between variables such as dividend size, trading volume, and stock prices, empirical findings may reveal non-linear patterns or threshold effects that deviate from expectations. Exploring the reasons behind such unexpected results can provide valuable insights into the complexities of market dynamics and investor behavior.

Another unexpected result may involve unexplained variance in stock price movements on ex-dividend day, despite accounting for various factors and theoretical expectations. Empirical studies may encounter situations where a significant portion of price changes remains unexplained by the selected variables, suggesting the presence of other unobservable factors or market inefficiencies. Investigating the sources of unexplained variance can help refine models and improve the predictive power of future research.

Unexpected contradictory findings across different studies or samples may also arise in analyzing stock prices on ex-dividend day. While some studies may report consistent relationships between certain factors and stock price movements, others may yield conflicting results or fail to replicate previous findings. Understanding the reasons behind such discrepancies, such as differences in sample characteristics, methodologies, or data quality, is essential for synthesizing research findings and identifying areas of consensus.

One of the primary limitations of empirical research on factors influencing stock prices on ex-dividend day is data availability and quality. Researchers may encounter challenges in accessing reliable and comprehensive datasets, particularly for less liquid stocks or emerging markets. Limited data availability may restrict the scope and generalizability of findings, potentially biasing results and conclusions.

Sample selection bias is another common limitation in empirical studies analyzing stock prices on ex-dividend day. Researchers may inadvertently select samples that are not representative of the broader market or fail to account for confounding factors that influence stock price movements. Addressing sample selection bias requires careful consideration of sample characteristics, robustness checks, and sensitivity analyses to ensure the validity and reliability of results.

Model specification issues, such as omitted variable bias, endogeneity, and model misspecification, can also pose challenges in empirical research on ex-dividend day stock price dynamics. Failing to account for all relevant factors or improperly specifying regression models can lead to biased estimates and unreliable conclusions. Researchers must employ appropriate econometric techniques, such as instrumental variable methods or panel data analysis, to mitigate model specification issues and enhance the robustness of results.

Establishing causality and addressing endogeneity concerns pose significant challenges in analyzing factors influencing stock prices on ex-dividend day. The relationship between dividend payments, trading volume, and stock prices may be subject to reverse causality or omitted variable bias, making it difficult to infer causality from observational data alone. Employing advanced econometric techniques, such as instrumental variables or propensity score matching, can help address endogeneity concerns and strengthen causal inference.

### 3.2.3 Implications for Investors, Financial Markets, and Future Research

Understanding the factors influencing stock prices on ex-dividend day is crucial for investors seeking to optimize their trading strategies and maximize returns. Empirical findings can inform investment decisions by highlighting the importance of dividend characteristics, trading volume,

market sentiment, and tax considerations. Investors can adjust their portfolios based on these factors to capitalize on potential price movements on ex-dividend day, enhance portfolio performance, and mitigate risk. Moreover, insights from research can empower investors to navigate market volatility more effectively, identify opportunities for arbitrage or income generation, and make informed decisions aligned with their investment objectives and risk tolerance.

Research on factors influencing stock prices on ex-dividend day has significant implications for financial markets, contributing to market efficiency, liquidity, and transparency. By shedding light on the determinants of price movements on ex-dividend day, empirical findings help enhance price discovery mechanisms, reduce information asymmetry, and promote fair valuation of securities. Market participants, including individual investors, institutional investors, and market makers, can leverage this knowledge to improve trading strategies, manage risk, and optimize market liquidity. Moreover, insights from research can facilitate the development of innovative financial products, trading algorithms, and risk management tools tailored to the dynamics of ex-dividend day trading, fostering market innovation and competitiveness.

Future research in this area can build upon existing findings and address remaining questions and limitations to advance our understanding of stock price behavior on ex-dividend day. Areas for future research may include. Investigating non-linear relationships between factors and stock prices on ex-dividend day to uncover threshold effects, inflection points, and nonlinear dynamics that may deviate from theoretical expectations. Analyzing cross-sectional differences in stock price reactions across industries, sectors, and market conditions to identify sector-specific dynamics, anomalies, and market inefficiencies that may warrant further investigation. Examining the role of market microstructure factors, such as bid-ask spreads, order flow imbalances, and market maker behavior, in influencing stock prices on ex-dividend day and shaping trading dynamics. Incorporating behavioral insights from psychology, sociology, and behavioral finance to better understand investor behavior, sentiment dynamics, and decision-making processes on ex-dividend day. Investigating cross-country differences in dividend policies, tax regimes, and market structures to assess the impact of institutional factors on stock price behavior on ex-dividend day and inform global investment strategies.

#### 4 CONCLUSION

The analysis of factors influencing stock prices on ex-dividend day provides valuable insights into market dynamics and investor behavior, with implications for investment strategies, market efficiency, and future research. Through rigorous empirical investigation and comparison with theoretical expectations, this research has shed light on the complex interplay of dividend characteristics, trading volume, market sentiment, tax considerations, and company-specific factors in shaping stock price movements on ex-dividend day. The findings of this research underscore the significance of dividend policies, investor sentiment, and market microstructure in driving stock price dynamics on ex-dividend day. Larger dividends and higher dividend yields tend to lead to more pronounced price adjustments, while trading volume reflects investor participation and liquidity provision. Market sentiment influences investor behavior, with bullish sentiment leading to price appreciation before the ex-dividend date and bearish sentiment resulting in price declines. Tax considerations and company-specific factors further contribute to stock price movements, highlighting the multifaceted nature of ex-dividend day dynamics. These insights have important implications for investors seeking to optimize their trading strategies, financial markets aiming to enhance efficiency and transparency, and future research endeavors aimed at advancing our understanding of market behavior. By leveraging empirical findings, investors can make more informed decisions, financial markets can become more resilient and competitive, and future research can explore new avenues for inquiry and innovation in this dynamic field.

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