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Financial Statement Announcement and Its Effect on Stocks in Amman Bourse

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Abstract
This study aims to test the effect of financial statement disclosure on stock prices on industrial shareholding companies, and investigating the information content of this statement on either stock prices and (trading volumes), it is also aims to investigate the ability of investors to earn abnormal return by using these information. This study draws sources of information from secondary data. The behavior of stock prices was studied on the basis of daily movements. On this paper an attempt was made to analyze the stock prices of all industrial shareholding companies listed in Amman bourse using market model to estimate the normal return and the percentage change of daily stock prices to estimate the actual return. Hypothesizes of this study were examined by using parametric tests as one-sample test and paired sample to test. It was found that there was no information content to these statements on stock prices. The investors could neither using this information to beat the market, nor earning abnormal return. This study can be a source of help to industrial companies' managers to improve either way of publishing financial statement or the information content of these statements. And it is also a source of help to investors to improve their understanding and reading of these statements.
Keywords: financial statement disclosure, stock prices, abnormal return, normal return, information content, Amman Bourse.

1. Introduction:

Financial statement is considered as a key instrument for information used to make financial decisions by financial institution, creditors and investors because it has multi information content for these groups.

Financial statement provide key information for current and anticipated investors, creditors and many other groups to make rational decisions related to their investment, loans and portfolios , annual financial statements contains many information which may change investor behavior related to a specified stock or portfolio and may affect trading volume as financial statements are public information and available for all . This study is an attempt to find the effect of this information on stock prices which has published its financial statement, and then it is a testing efficiency of Amman bourse at semi strong level.

1.1 Importance of the study:

Studying the efficiency of markets in general and Amman bourse in specific terms will provide many investors either – current or anticipated – with information about the strategies for investing in these markets. According of the level of efficiency they deal with, as capital markets are working beyond strong level of efficiency. Then the information monopoly will not exist and no one can earn abnormal return more than other investors.
Also this study is anticipated to make contributions in three fields:

First: to know the information content of financial statement announcements and the effect of that information on investor's behavior.

Secondly: contributions to the investors either current of anticipated to perform and build their investment strategies

Thirdly: contributions to the academic fields by providing a new perspective in finding out the efficiency of Amman bourse from this study,

The academic fields will be able to gain better understanding in the interaction between the information content and efficiency of markets.

1.2 Objective of the study:

The main objectives of the study
1- To examine the efficiency of stock pricing in Amman bourse using financial statements disclosure as a surprise event.
2- To clarify the factors that affects the efficiency of markets at semi strong.
3-Identifying the obstacles and difficulties facing investors in Amman bourse.

1.3 Problem statement : this study intended to examine the following three major hypothesis according efficiency market hypothesis , it is expected that stock prices will response rapidly and simultaneously to any new information and may they will change their image for a stock issued by some company in efficient market it is anticipated that the price of a stock issued by a company must reflect all available information , these information may represent financial statements , historical price of stock , information published by journals and other mass media , or any report or analysis for macro economic conditions .we can say that in efficient market , the stock will be priced fairly and its intrinsic value will equal its fair value which generate a sufficient return that will compensate investors in that stock with a suitable return according to its systematic risk .

2. Literature review:

According to Omet (1997), Amman bourse has to improve its techniques and efficiency to attract investment. This study aimed to test the liquidity and pricing efficiency in Amman Bourse during (1978-1996).

Roll (1997) compared the risk adjusted return for small size companies as with large size companies during (1962-1997).He found that annual yields for small size company's outperformed large size companies with a rate 12% with even risk for the two groups.

Ghilani (1995) has found the bourse of Masqat was not efficient at week from because historical data didn't influence on stock shares and there was an opportunity of accomplishing abnormal returns.

Musa (2001) the size of the company has no significant impact on stock yield either if we use the book value or market value as a measure of size while the existence of size impact was found before the return was adjusted with risk.

There was no difference between risks of portfolios consisting of small size or large size companies.

According to Ghilani (1995), there's no evidence of efficiency at the week form level in masquat market and historical information hadn't be reflected on stock prices and the stock prices had the characteristics of normal distribution .

Kawkattsu (1999) - financial liberalization in emergency markets- has found no effect on these markets and those markets were efficient before liberalization.

Lonie (1996) - The firms with high EPS and DPS had earned abnormal returns while those with low EPS and DPS had earned abnormal loss. Finally firms with no change in EPS and DPS had more abnormal return compared with other that had increased EPS and DPS.

Beaver (1998) - The annual financial reports had trading volumes- , also found the investor modified his portfolio to keep up with these information.

3. Methodology:

To achieve the main objectives of the study , the data for this study was gathered from secondary sources –the closing prices of stocks as published in Amman bourse (2001- 2009) these data were used to compute normal returns and abnormal returns of the selected Jordanian firms for the mentioned period , as well as to assess the efficiency of markets .

Dominant industrial firms of Jordan were selected as a sample of the study which it accounts 40% of the study population. However the dependent variable of this study will be the stock returns which will be measured by market model. The independent variable is the return of market portfolio which will be measured by the percentage change of Amman Bourse financial indicator.

For the purpose of analyzing this study we uses the market model to estimate the normal return and the variance between realized return and expected return to estimate the abnormal return the paired sample test ANOVA was used in testing the hypotheses and to measure the difference between abnormal return before and after the event Pearson correlation coefficient also used to investigate the correlation between the paper variables at 5% level of confidence according to the SPSS software package.

3.1 Results and Analysis:

Table (1) shows the average normal return accumulated average abnormal return for companies involved in the study sample before and after the event (25days before and 25 days after the event):

Table (1): average normal return, accumulated average abnormal return for companies involved

Serial	Days before \after	Average abnormal return	Accumulative average abnormal return
1	25		
2	24	0.0066	0.00660
3	23	0.00638	0.01299
4	22	0.00979	0.02278
5	21	0.00951	0.03229
6	20	0.01099	0,04328
7	19	0.00902	0.05229
8	18	0.00829	0.06779
9	17	0.00572	0.07350
10	16	0.00742	0.08092
11	15	0.00715	0.008807
12	14	0.00566	0.09373
13	13	0.00613	0.09988
14	12	0.00598	0.10548
15	11	0.00740	0.11324
16	10	0.01230	0.12691
17	9	0.00366	0.13895
18	8	0.00654	0.14260
19	7	0.00777	0.14914
20	6	0.00637	0.12691
21	5	0.00901	0.16329
22	4	0.00858	0.17230
23	3	0.00834	0.18088
24	2	0.00670	0.18922
25	1	0.01251	0.19682
26	0	0.00868	0.20933
27	1	0.00640	0.21801
28	2	00818	0.23259
29	3	.00626	0.23885
30	4	0.00870	24755
31	5	.00981	0.24755
32	6	.00784	0.26520
33	7	0.00591	0.27112
34	8	0.00716	0.27828
35	9	0.00761	0.28589
36	10	0.00693	0.29282
37	11	0.01132	0.30414
38	12	0.0706	0.31120
39	13	0.00666	0.31786
40	14	0.00642	0.32427
41	15	.00709	0.33136
42	16	.00767	0.33903
43	17	.00787	0.34690
44	18	.00946	0.35636
45	19	0.01607	0.37243
46	20		0.38121
47	21	000878	0.39015
48	22	0.00894	0.39969
49	23	0.00788	0.40697
50	24	0.00885	0.41582

Source: computed from Amman stock exchange using daily closing, 2011

Table (1) shows the window dressing which consist of 25 day before the event, 25 after the event in addition to the event day (day o) and provides the average abnormal return for the all selected companies and the accumulative average abnormal return .

Moreover table (1) indicates that these were an existing of positive abnormal return during the window dressing and an increasing of accumulative average abnormal return during the period surrounding the event.

3.1.1 Testing: the decision rule, accept HO if calculated hypotheses value is less than tabulated value and reject HO if calculated value is greatest.

This study proposes 3 hypotheses: the first one stated that the sum of daily abnormal return at the day of publishing financial didn't differ from zero.

This hypothesis was examined using one sample t-test and it was

Mean	t-calculated	t-tabulated	Result of HO
0,00043-	1,708-	1,91818	Reject

Found that (calculated t=1.708) is smaller than (tabulated t = 1.91818) according to decision rule this hypothesis is rejected and we can state that there is a positive abnormal return at the event day (the day of publishing financial statement).

Hypothesis 1-2:
Ho: prices don't adjust rapidly to new information
Hypothesis (1-2)
Test of hypothesis (1-2)

Mean residual	T calculate	tabulated	req	Result of ho
0.00093	1.754	1.9818	0.08	Accept

This study was examined using paired sample test, it is found that there is no statically difference between pre and post mean which ascertain that there is no information content to that event (the event of publishing financial statements.

3.1.2 Results:

After analyzing the data and testing the hypothesis the following results were extracted:

1-It was found that the sum of daily abnormal return at the day of publishing financial statements doesn't differ from zero. This result doesn't ignore the abnormal return at the event day, but some companies earn abnormal loss and others earn abnormal return and the sum of abnormal return and abnormal loss doesn't differ from zero (abnormal return has deleted when we add abnormal loss)

2- The sum of absolute abnormal return at the day of publishing financial statement differs from zeros and these abnormal returns ascertain the inefficiency of Amman Bourse.

3- We can use the event of publishing financial statements in earning abnormal returns; this result doesn't ignore the existence of abnormal return but the average of abnormal return before publishing the financial statement and after the publishing doesn't differ.

4- According to the stock prices responsiveness to new information, we can describe that process is very slowly because of the existence of abnormal return during the days following the event.

5-There is a delay stock prices response to new information which is seemed by the existence of abnormal return during the period surround the event : this is ascertain that publishing financial statements has an information content but the process of generating abnormal return ascertain the delay of adjusting prices to that event and the under action response.

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