
THE EFFECT OF FINANCIAL STATEMENT DISCLOSURE ON STOCK PRICES ON INDUSTRIAL SHAREHOLDING COMPANIES

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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 is a result to evaluate return drawing sources of information from secondary data.

The behavior of stock prices is studies on the basis of daily movements. On these papers 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.

The hypothesizes of this study were examinable by using parametric tests as one-sample test and paired sample to test it was found that there was no information content to these statement on stock prices and investors couldn't neither these information to best the market nor earning abnormal return .

This study can be a source of help to industrial companies' manager 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.

Key words: *financial statement disclosure, stock prices, abnormal returns normal return.*

Introduction:

Information content financial statement disclosure is one of the most important resources of information for both insiders and external parties. Insider's parties use this information for decision making and control while external parties use them for the decisions of investment, financing and performable appraisal. Financial analysis may provide these parties of statement information to invest (Charles 2002).

Financial statement is considered as a key instrument for information used to make financial. 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 effect trading volume as financial statements are public information and available for all , this study is an attempt to find the effect of these information on stock prices which has published its financial statement , then it is a testing efficiency of Amman bourse at semi strong .

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 two folds : first to know the information content of financial statement announcements and the effect of that information on investors behavior secondly contributions to the investors either current of anticipated to perform and build their investment strategies third 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 .

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 affect the efficiency of markets at semi strong .
3. I identifying the obstacles and difficult ties facing investors in Amman bourse .

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 condition is we can say that in efficient market , the stock will priced fairly and its intrinsic value will equal quietly its fair value which generate a sufficient return that will compensate investors in that stock with a suitable return according to its systematic risk (Charles,2002) .

Literature review:

Omet (2002) this paper examines the efficiency of the Jordanian stock exchange and the relationship between returns and conditional volatility. An AR (1)-GARCH (1,1)-Market model is estimated for five daily indices. The empirical results indicate significant departures from the efficient market hypothesis; in only two cases there is a significant relationship between risk and return, and returns tend to exhibit high persistent volatility clustering.

According to Omet (1997) ,Amman bourse has to improve its techniques and efficiency to attract investment its 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 companies more than large size companies with a rate 12% with even risk for the two groups.

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. Kawkatsu and Morey (1999) financial leberization in emergency markets has no effect on these markets and those markets were efficient before leberization. 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 its Eps and Dps

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

Ball (1978): This paper tests whether abnormal returns are observed when steps are taken to reduce the effect of deficiencies in the capital asset-pricing model. Significant abnormal returns are observed, but do not cover the transactions costs unless one can avoid direct transactions costs (e.g., a broker). The paper also investigates whether those abnormal returns can be attributed to a deficiency in the capital asset-pricing model.

Miller and Reily(2000): examines daily returns, daily volume, and daily bid-ask spreads for a group of initial public offerings during their first week of trading, and four weeks after the offering. It is found that the market adjusts to any mispricing during the first day of trading, and that excess returns are not available to investors who trade in the after-market. The degree of under pricing was significantly correlated with proxies for both ex ante uncertainty and ex post uncertainty. First-day volume averaged more than 22% of the number of shares offered, but rapidly declined to a little more than 1% by the end of the first month of trading. There were significant differences in daily volume between the underpriced and overpriced issues. An analysis of bid-ask spreads found that the same model for inventory risk was appropriate after the first day of trading for the underpriced and overpriced groups. During the first day of trading, the results indicated the possibility of an adverse information effect.

Cumby and Glen (1990) examine the performance of a sample of fifteen U.S.-based internationally diversified mutual funds between 1982 and 1988. Two performance measures are used, the Jensen measure and the positive period weighting measure proposed by Grinblatt and Titman. We find no evidence that the funds, either individually or as a whole, provide investors with performance that surpasses that of a broad, international equity index over this sample period.

Ross (1978) Numerous studies observe abnormal returns after the announcement of quarterly earnings. Ball (1978) suggests those returns are not evidence of market inefficiency, but instead are due to deficiencies in the capital asset-pricing model. This paper tests whether abnormal returns are observed when steps are taken to reduce the effect of deficiencies in the capital asset-pricing model. Significant abnormal returns are observed, but do not cover the transactions costs unless one can avoid direct transactions costs (e.g., a broker). The paper also investigates whether those abnormal returns can be attributed to a deficiency in the capital asset-pricing model. The conclusion is they cannot.

Roll(1981) Recent empirical studies have found that small listed firms yield higher average returns than large firms even when their riskiness is equal. The riskiness of small firms, however, has been improperly measured. Apparently, the error is due to auto-correlation in portfolio returns caused by infrequent trading. Other anomalous predictors of risk-adjusted returns, such as price/earnings ratios and dividend yields, may also derive some of their apparent power from this spurious source.

Sorensen (1986) found that The relative price performances of 43 industry groups over the 1972-1984 period indicate that, while individual industry rankings varied considerably, industry-specific stock price movements tended to persist for at least two quarters. This suggests that a strategy based on buying and holding the best performing industry groups--a naive strategy that requires only knowledge of past information and no superior forecasting ability--may enhance portfolio returns. In fact, a strategy based on rotating portfolio holdings among the three, five or 10 best performing industry groups over the 1972-1982 period resulted in superior returns. Each portfolio was revised quarterly to sell any group that had dropped a certain percentage in industry ranking and replace it with the best performing industry group not already held. Gross returns over the period ranged from a low of 9.32 per cent annually for a five-group portfolio to a high of 16.8 per cent for a three-group portfolio, compared with an annual market return (as measured by the S&P 500) of 6.56 per cent.

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 (2005 - 2013) 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 analysis this a study 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 ANOVAs 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 .

Results and Analysis:

Table(1) shows the average normal return and 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):The average normal return and accumulated average abnormal return

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	0.08807
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	0.08180	0.23259
29	3	0.00626	0.23885
30	4	0.00870	0.24755
31	5	0.00981	0.24755
32	6	0.00784	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	0.00709	0.33136
42	16	0.00767	0.33903
43	17	0.00787	0.34690
44	18	0.09460	0.35636
45	19	0.01607	0.37243
46	20	0.00198	0.38121
47	21	0.00878	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 , 2013 table 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 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.

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 tow 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

Hypothesis (1)

Table (2)

Test of hypothesis (1)

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).

The second hypothesis stated that prices don't adjust rapidly to new information.

Hypothesis (2)

Table (3)

Test of hypothesis (2)

Mean residual	T calculate	tabulated	Sig	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 certain that there is no information content to that event (the event of publishing financial statements .

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 of abnormal return at the event day, but some companies earn abnormal loss and others earn abnormal return 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 this abnormal return accretion 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 as 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 certain that publishing financial statements has an information content but the process of generating abnormal return certain the daily of adjusting prices to that event and the under action response.

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