De La Salle University – Dasmariñas

INVESTOR REACTION TO UNEXPECTED ECONOMIC, POLITICAL, AND COMPANY SPECIFIC EVENTS IN THE PHILIPPINE STOCK MARKET

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MARC L. MAMALATEO

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ABSTRACT

MAMALATEO, M. L., Investor Reaction to Unexpected Economic, Political, and Company Specific Events in the Philippine Stock Market. Bachelor of Science in Business Administration major in Economics, De La Salle University-Dasmariñas, Dasmariñas City, March 2010. Adviser: Mr. Don S. Malabanan.

The study generally aimed to examine investor reaction to unexpected economic, political, and company specific events. The specific objectives of the research were the following: (a) to identify major unexpected economic, political, and company specific events that contribute to the variation of returns by company; (b) to Compare the variation of returns of selected Philippine stocks based on different event categories; and (c) to determine the trend of price movement of selected Philippine stocks. The study selected 10 PSEi stocks namely: (a) Philippine Long Distance Telephone Company; (b) Manila Electric Company; (c) Philex Mining Corporation; (d) International Container Terminal Services, Inc.; (e) ABS-CBN Broadcasting Corporation; (f) Megaworld Corporation; (g) Ayala Land Inc.; (h) Filinvest Land Inc.; (i) Bank of the Philippine Islands and; (j) Metropolitan Bank and Trust Company. This study selected 30 major events, 15 favorable and 15 unfavorable events, which were economic, political, and company specific in nature. Events were qualitatively selected either economic, political, or company specific in nature. Quantitative measurement was done to determine an event whether favorable or unfavorable. The study used a 30-day event window. The

period of the study was from January 2004 to June 2009. The day of release of news was used as the event day.

Events or news were gathered from the headlines and business sector of daily newspapers. Daily closing prices of stock were gathered from Bloomberg. The main objective of the study was to compute for cumulative abnormal returns (CAR) of the event dates. In order to produce CAR, returns of daily closing prices were computed first. The variance of returns was computed to assess the volatility of returns. *F*-statistic was computed to compare the variances of returns of the event categories. The comparisons of variances of returns were: (a) non-event days against post-event days; (b) non-event days against postfavorable event days; (c) non-event days against postunfavorable event days; and (d) postfavorable event days against postunfavorable event days. Mean abnormal returns was next computed. CAR was next computed followed by conducting *t*-test to determine whether the generated price pattern follows OH or UIH.

Based on the study, the results showed some inconsistency of the movement of returns. Events, if qualitatively determined, showed reversal reaction. For example a decrease in the inflation rate, a positive event when classified qualitatively, resulted to negative returns. A qualitatively classified negative event such as an increase in T-bill rates showed a positive effect on returns. Occurrences of inconsistencies or reversal reactions were due to the limitations that events were only quantitatively measured.

Based on the results, UIH was present in the selected Philippine stocks wherein 9 out of 10 showed consistency with the corrective price pattern upon arrival of unexpected events. Only the observation on TEL showed a corrective price reversal pattern or consistent with the overreaction hypothesis upon arrival of favorable events. Thus, the arrival of unexpected events affects the variation of returns of selected stocks.

The findings show that investors in the Philippines analytically set security prices below its full potential price in response to unexpected information. Thus, it made the financial market a more risky environment.

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