

INVESTOR REACTION TO STOCK SPLIT IN MANADO

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ABSTRACT

Market might react in several different ways in facing the stock split action. Some might positively react and increasing the number of transaction, some might do the opposite, or some might not care at all. It is all depend on the investor behavior and perception of the stock split. The changes could be seen in the number of stock volume transaction post-split compared to the pre-split, but the reason behind those actions left people to only guessing. The only way to know about how and why investors react to stock split is to ask them directly. The objective of research is to analyze the investors' reaction to stock split. Theories supporting research are investment and stock split. The population of research is all stock investors in Manado with 7 respondents using purposive sampling method. Results are (1) investors in Manado are not attracted to stock split; (2) the investors are not attracted to the stock split announcement with three reasons namely: less exposure to the market because of the long-term investment, the rule of analyses, and the amount of funds. It is concluded that investors in Manado are showing an under-reaction to stock split.

Keywords: *stock split, investor reaction*

INTRODUCTION

Research Background

Indonesia is a growing country with large number of citizens, about 237 million people in 2010, according to Badan Pusat Statistik (2011:6). Despite of the large number of citizen, according to Indonesia Stock Exchange (IDX) in Manado, 60% of investors that invest in Indonesia capital market are foreigner. It is regrettable because of the lack of people awareness of stock investment in Indonesia. Indonesia is also known for its growing industry, which is very profitable because of the big market size. If the industry in the country keeps increasing, the economy of Indonesia will be increase as well. It will be a good prospect for investment in Indonesia.

Investment could help an individual to obtain a bigger value of something that being sacrificed now. Just like planting a tree, one should sacrifice time, power, and others with expectation of the shade or fruit form it. Based on Reilly and Brown (2012:4) Investment is the current commitment of funds for a period of time in order to obtain future payments. They also stated that the future payment will be considered as compensation for the time of commitment, the expected rate of inflation during this period of time and the uncertainty of the future payments. Investment is one of several investment products in the market. In order to be able to invest in this product, investor should enter the stock market. Stock market, just like usual market, is a place where sellers and buyers meet to make transaction. In this case, the sellers are companies that need more funds for their business, and the buyers are individual or institution that want to invest their excess money. While what being sold is stocks, which are shares of a company's ownership (Cecchetti, 2006:178). He also said that by buying a company's stock, the buyer becomes a part owner of the company. In this case, the buyer has the rights for the profit and also has responsibility if there is a loss, as much as their parts as shareholder.

Most of the stocks in the market would experience changes in price every time. Basically the changes are driven by market forces, which is demand and supply. In this case the demand is the number of stock wanted, while supply is the number of stock offered. If stock demand greater than supply then the price would

rise up. But if the demand is lesser than supply, the price would go down. The reason behind the number of demand and supply is the company's performance itself. Investors are always seeking profit from good performance companies. It caused by the perception that the better the performance, the better the profitability, which means greater profit for the investors. So if there is a well known for good performance company in stock market and lot of investors buy the stock, the price would likely to rise.

Investors would only know about a company's performance by obtaining as much information as possible. The information needed might come directly or indirectly from a company. Direct information could be in form of financial statement that presenting company's current state. Indirect information could be in form of corporate actions. There are several corporate actions that often implemented by companies, such as dividend, right issue, buy back, and stock split. Good companies would likely experience an increase of stock market price. In some cases the price could increase until a big number of money, and become 'too expensive'. In this situation, a company could do the action called stock split. Stock split is an action that taken by a company in order to increase the number of outstanding shares (Brigham and Gapenski, 1994:643). They also state that the stock split will usually reduce the price per share as the increase in the number of shares, because the split is hinted as dividing the pie into smaller sizes. That means the value of total stocks before and after the split is just the same, because the company does not issuing new stock, but only dividing the current outstanding ones.

Behavioral finance is a study of financial practitioners' behavior and the effect to the market (Sewell, 2007). He stated that the study is useful in determining 'how' and 'why' market might be inefficient. In other words, behavioral finance might be able to explain the phenomena that happened in financial market in words instead of numbers. One of the phenomena in financial market is regarding how investors react to a certain corporate action. Market might react in several different ways in facing the stock split action. Some might positively react and increasing the number of transaction, some might do the opposite, or some might not care at all. It is all depend on the investor behavior and perception of the stock split. The changes could be seen in the number of stock volume transaction post-split compared to the pre-split, but the reason behind those actions left people to only guessing. The only way to know about how and why investors react to stock split is to ask them directly.

Manado is a capital city of North Sulawesi Indonesia, which is now experiencing an industry development. Generally, the stock investing in Manado is still in the introductory stage. It is shown by the few numbers of investors and people awareness. Manado citizen commonly invest in property and gold as their source of future profit or benefit. It might caused by the behavior of not trusting intangible assets or merely lack of investment knowledge. According to data from Indonesia Stock Exchange (IDX) in Manado, the number of investors in the city until June 2013 is 699 people. Not a big number to be compared to the number of citizen. Even though stock investors in Manado are still far from its number of citizen, those situations regarding reaction to stock split in the city is still interesting to explore. According to above explanation there is a need to conduct a research to explore and analyze about investor reaction to stock split in Manado.

Research Objective

The objective for this research is to analyze the investors' reaction to stock split in Manado.

THEORETICAL FRAMEWORK

Investment

Francis (1991:1) defined investment as a commitment of money with an expectation of generating additional money, by requiring a present certain sacrifice for future uncertain benefit which is quite risky to do.

Stock Split

Stock split is an activity taken by a company that has gone public to raise the number of shares outstanding, which is reducing the price per share in proportion to the increase in share, just like 'dividing the pie into smaller slices' (Brigham and Gapenski, 1994:643). Gitman and Joehnk (2008:263-265) explained that stock split is a maneuver for a company to increase the number of shares outstanding by exchanging a specified

number of new shares of stock for each outstanding share. While Reeve, et al. (2009:594) stated that a stock split is a process by which a company reduces the par value of its common stock and issues a proportionate number of additional shares. Further, Gitman and Joehnk (2008:265) stated that a company will do the stock split then it wants to enhance its stock's trading appeal by lowering the stock market price. Copeland (1979) stated that a stock split may turn a market into 'better' and 'wider' market, because the split would increase liquidity and number of shareholders.

Previous Research

Ikenberry and Ramnath (2002) found that fundamental operating performance is the source of the under-reaction to the event and that splitting firms have an unusually low propensity to experience a contraction in future earnings. Fama (1998) found that post-split continuation of pre-split abnormal returns is about as frequent as post-split reversal. Which means the market behavior to a stock split is not too exaggerated. Babajide and Adetiloye (2012) resulted in strong evidence that behavioral biases exists but not so dominant in the Nigeria security market. Fama et al. (1969) found that stock split announcement was used by market to re-examine the expected income from a stock.

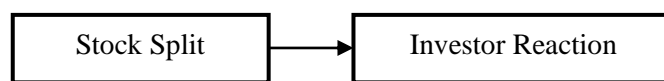


Figure 1. Conceptual Framework

RESEARCH METHOD

Type of Research

This research uses the exploratory type of research. This exploratory research is going to describe investors' reaction of stock split.

Place and Time of Research

This research is conducted in Manado, North Sulawesi. The time of research being conducted is from June-August 2013.

Population and Sample

Population is the entire group of people, events, or things which a researcher desire to research, and sample is the subset or subgroup of population (Sekaran and Bougie, 2010:443-444). The population of this research is all the stock investors in Manado, which according to Indonesia Stock Exchange Manado are 699 people, as counted in June 2013. The sample of this research is chosen by using purposive sampling method. There are 7 respondents that already had been interviewed.

Data Collection Method

This research used a primary data, which is information that gathered first-hand by the researcher (Sekaran and Bougie, 2010:180). The data needed for this research is gathered through interview, based on the list of question prepared. Sekaran and Bougie (2010:186) stated that interview is a useful data collection method for exploratory research. This research also used secondary data as complimentary. Those data are taken from books, journals, and relevant literature from library and internet.

Operational Definition of Research Variables

1. Stock split is used to increase the number of authorized, issued, and outstanding stocks, and also decrease the par value per share (Horngren and Harrison Jr.: 2007:693).
2. Behavioral finance refers to explain the what, why, and how of finance and investing, from a human perspective (Ricciardi and Simon, 2000).

Data Analysis Method**Reliability and Validity Test**

Triangulation is one of the common ways in maximizing data reliability and validity in qualitative research. The idea behind triangulation is getting the same result from different methods or sources (Sekaran and Bougie, 2010:385). There are several types of triangulation based on Sekaran and Bougie (2010:385), which are: (1) Method triangulation: Using several different methods in gathering and analyzing data; (2) Data triangulation: Using data that gathered by several different sources and/or at different time period; (3) Researcher triangulation: Using several researchers in gathering and analyzing data; and (4) Theory triangulation: Using several different theories to analyze and interpreting data.

Data Reduction

Data reduction consists of data coding and categorization which are: (1) Coding. In coding, the data that gathered by doing interview are reduced, rearranged, and integrated to form a theory. It helps in drawing meaningful conclusion about the data. The result from doing coding is called codes; and (2) Categorization. In categorization, the codes that previously have done in coding process are organized, arranged, and classified. In this process, the patterns and relationships between the data are started to be noticed (Sekaran and Bougie, 2010:372-375).

Data Display

Data display process, the reduced data are displayed in an organized and condensed manner adding graphs, matrices, charts, diagrams, or drawing are often presented in order to help organizing the data (Sekaran and Bougie, 2010:382). It also helps to discover patterns and relationship so the conclusion is eventually facilitated. After doing through data reduction and data display, the final step in data analysis in this research is drawing conclusion. In drawing conclusion, the research question that previously presented is going to be answered.

RESULT AND DISCUSSION

Result**Reliability and Validity of the Research**

The reliability of this research had been tested by providing codes and categorization of the data that gathered. After gathering the data from respondents, there are four codes that come up in the process of data reduction. They are perception of stock split, stock preference, attractiveness to stock split, investment period and funds allocation. The validity of this research is tested by using data triangulation, which is using data that gathered by several different sources.

Interview Result

Respondent - 1 is a 40 years old male, work as a lecturer and has been investing in stock for two years. Besides stock investment, Respondent - 1 also invests in property like land and house. Respondent - 1 is a long-term investor which is an investor who does buy-and-hold action. Respondent - 1 believes that investing in a long period of time would be more profitable for him than doing a daily trading. It is because he is not interested in doing daily trading and also because of his current job that requires most of his time in work place. Before deciding to buy a certain stock, Respondent - 1 carefully analyzes the fundamental state of a company. Respondent - 1 also analyzes the current situation of economy and industry. Respondent - 1 preferred to keep a stock in promising industries, because those industries would always have high demand as delivering basic needs of human. Respondent - 1 does not really pay attention to stock split announcement or even any corporate actions announcement. Respondent - 1 is not interested in seeking information about corporate actions or rumors that commonly spreading inside a market. Respondent - 1 believes that his fundamental analysis is strong enough to be a base for his investment decision.

Respondent - 2 is a 22 years old male, working in a private company and studying as a magister degree student. Respondent - 2 has been investing in stock for about a year. Respondent - 2 learnt about both fundamental and technical analysis, and implement them in his investment decision making process.

Respondent - 2 has a quite good understanding about corporate action. Respondent - 2 explained about stock split in detail and even gave examples. In summary, his understanding of stock split is divided by two; split-off and split-in. Split-off is an action of splitting stocks that turn into an increase in number of stocks outstanding and a decrease of price per share, while split-in is the opposite. Respondent - 2 had an experience of buying a stock that implement stock split, in this case split-off. He decided to buy the stock because of the cheaper price. He realized that a split stock has a good prospect in the future. And he also proved that the stock he bought gave quite a good profit. Respondent - 2 always use fundamental and technical analysis in his decision making process of buying stocks. Even for the case of stock split above, he still checked first the company's financial statement before buying the stock. He also tend to check the charts as technical analysis before deciding, even though he realize that technical analysis is not completely reliable.

Respondent - 3 is 38 years old male lecturer in faculty of economics and business. The period of his stock investment is about 11 years, or since 2002. He actively trades his stocks in both short and long term. Respondent - 3 had an experience in buying a stock that was going to split. He said that he knew about the stock split from rumors that spread in the market at that time. For him, rumor in the stock market is number one, while fact is below it. Respondent - 3 said that rumor could be advantageous or not advantageous according to the investors themselves, whether they are going to believe it or not. According to Respondent - 3, when a stock price continuously increase until it is considered to be high enough, the liquidity or the trading volume of the stock will be decreased. It is because of the limited investors with high funding ability. One of the ways to increase the liquidity is to split the stock into lower price, but more shares outstanding. By doing the split, management of a company would expect a higher liquidity than before. Respondent - 3 stated that a company that implements a stock split must be a good prospective company. In other words the company is considering the future of its stock in market. Respondent - 3 believes that by doing a stock split, a company is building a good image to investors or other companies that might have a plan to work together. Stock split also indirectly increases a company's confidence in planning and doing its future actions. Besides being advantageous for companies, stock split, according to Respondent - 3 is also very profitable. When an investor buy a good stock that split, the investor should just wait till the price go back to its actual price, or even more.

Respondent - 4 is a young man, working in a company. He has been investing in stock for about a year. He knows about fundamental and technical analysis. He has quite broad knowledge about investment, since he was a student in faculty of economics and business and also worked in investment industry. According to Respondent - 4, stock split is happened when a company decided to decrease its stock price and increase its volume. In his experience of investing in stock, Respondent - 4 never had bought a stock that split. He admitted that he once wanted to buy a stock that split, but his fund is limited at that time. Respondent - 4 stated that in choosing stock, an investor has to pay attention to stock price and company's condition, not only believing rumors. He admitted that in short term he chooses to follow the market trend, whether it is positive or negative towards a certain stock. For a long-term, Respondent - 4 believes that companies that consisted in LQ45 index are the best for future profit. According to Respondent - 4, stock split is profitable for both investors and companies. For investors that buy a stock that split, they can buy their preferable stocks in a cheaper price. For companies that split their stock, their stock becomes actively traded in the market.

Respondent - 5 is a young female that recently graduate from university after taking her study in faculty of economics and business. She invests in stocks for about a year. She was one of members in student investment club, where she learnt about fundamental and analytical techniques. She confessed that investing in stock was her way to get extra money, in quite an easy way. Respondent - 5 applied both, fundamental and analytical analysis in her stock investment process. She stated that in long-term investment, she would like to pay more attention in fundamental analysis. While in short-term investment, it is more on technical analysis. In fundamental analysis, Respondent - 5 believed that company's financial statement represent quite good information. Respondent - 5 explained that she tried to find out about a certain company's PER before making decision. Respondent - 5 also believed in rumors that spread inside the market. She explained that some rumors might make her considering about her decision, even though rumors are not completely true. Respondent - 5 had never bought a stock that implement stock split. She explained that she was not interested in stock split or any corporate actions. Even though she interested in rumors, but particularly corporate actions do not attracts her. She believed that any corporate action, including stock split, would not change any companies' future profitability, because it is depends on those companies productivity.

Respondent - 6 is a 46 years old male lecturer in faculty of economics and business. He had been investing in stock for two years. He confessed that stock investing is just an extra job for him because he had a current fixed job that take most of his time. That is why he spend not too big amount of funds in stock

investment. Respondent - 6 confessed that he basically investing in short period of time, but there are several stocks that he kept because of the promising prospect. Respondent - 6 had never bought a split stock. Because, according to him, any corporate action is not always representing a company's prospect. One should examine a company's reports before deciding to buy a stock. Respondent - 6 explained that his way of choosing a stock is according to company's financial report. By examining the reports, Respondent - 6 is able to predict a company's future prospect. Respondent - 6 noted that he actually once found several companies that split their stocks, but he did not buy them because of the bad market situation at that time. That is one of his beliefs that market situation is very important in decision making. He believed that any corporate action also could give nothing to investors if it happens in a bad market situation. Respondent - 6 stated himself as a selective investor in term of choosing stocks. He also believed that well educated investors would be more selective in choosing stocks, unless they do not considering about money and would like to speculate in something uncertain.

Respondent - 7 is a 19 years old male university student. He has been investing in stock for almost a year. He learnt about stock investment from the investment class and investment club in his college. Respondent - 7 gave a clear understanding about stock split. According to him, stock split is a corporate action that decreases a stock price by splitting the size of the stock. The action's objective is to get more investors to buy their stock. In other words, the stock price becomes cheaper after the stock split, and there will be more investors that buy the stock. In choosing stocks, Respondent - 7 said that he always go back to fundamental and analytical analyses, no matter how much is a stock's current price and any corporate action announced. He said that even after accepting rumors from market, he would check the companies' report and current situation himself. Same goes for stock split, Respondent - 7 does not easily tempted to buy any stock that split, but he would check its financial report and gather any news. Respondent - 7 stated that any corporate action would be advantageous for company or investors. But in case of stock split, an advantage might absolutely go to company because of the liquidity of stocks. But for investors is still relative, because a stock that split might not going to rise and go back to its state before split. It might happen if a company has no good prospect in the future.

Discussion

Perception about stock split

Investor perception about stock split is one of the determinant factors of investor reaction. Theoretically, stock split is a form of action that exchange 'old' shares for a larger number of 'new' shares with proportionately smaller par and market value (Cornett, 2012:577). Despite of what the books say about stock split, it is important to find out about investors perception about the stock split itself. Investor's perception about stock split might lead to the findings of how investor reacts to stock split. Just like in this research, there are investor who do not understand about this stock split term. In the interview, there was a question provided in order to see respondent knowledge about stock split. Most of the respondents had explained clearly about what a stock split is. They shared similar opinion with the theories that found in textbook or any literatures.

Respondent - 3 had explained quite a clear understanding about stock split. He stated: *"One of the ideas behind a stock split is when a stock price continuously increases to its unaffordable level. When a stock becomes too expensive, the transaction volume would be lower because of the limited buyers. So, one of the strategies to make a stock more liquid is by splitting it and then decreased its price."* Respondent - 7 also showed quite similar answer with the previous one. Respondent - 7 stated that: *"In my opinion, a stock split is just an action to split a stock because of its too expensive price. They do that in order to make a stock cheaper and then more liquid."* Those two respondents point in the same problem, which is the objective of stock split is to make a stock cheaper and more liquid. They clearly said that by splitting, a stock will increase its trading volume in the market.

Respondent - 2 also knows well about the stock split term. Respondent - 2 divided stock split into two categories, split-off and split-in. Respondent - 2 answered: *"If I'm not mistaken, split-off means to split a stock into several stocks. For example there is a stock with price Rp 3000 and outstanding shares are one million shares. When a company decided to split its stock with ratio 1:2, which means every single share will be multiplied by two and its price will be divided by two, the outstanding shares will be two millions and the price will be Rp 1500. Vice versa for split-in."* Respondent - 4 answered the question with similar answer with Respondent - 2. He stated: *"If a stock price becomes too expensive, the company will implement stock split by making the price decrease and the number of shares increase."* Those two respondents, Respondent - 2 and

Respondent - 4 showed similar understanding of stock split. Both are emphasizing on how a stock price will become cheaper after a stock split and also the number of outstanding shares will be bigger.

Respondent - 3 said that he had bought a stock that split before. The reason that he bought that stock is because its prospect. He said that it will be profitable because of the stock split event. He said: *"After we bought a stock that split, we just have to wait. The stock will later rise again to its previous level. Usually it will not take a long time."* Respondent - 7 also had an experience of buying a splitting stock. He did not really rely on such event for getting profit, but he realized that stock split will give good profit because of the cheaper price. He confessed: *"I got capital gain because of the cheaper price when I bought that stock. After that I realize that stock split is profitable."* Those respondent answers pointed to one thing, stock split happen to make the price cheaper. The way to make it cheaper is by dividing it into smaller size and automatically the price will adjust to its portion. Logically when a stock price become cheaper, there will be more investors to be interested to buy. Therefore, the liquidity will increase.

From four respondents that explained about what they know about stock split, two respondents had actually bought a split stock. They put their selves like the way what they think of what stock split would drive people. They interested in the profit that they will gain later, and then decided to buy it. The rest respondents know and explained well about stock split and its objective but never bought a split stock in their investment experience. It showed that they know that the stock split will give a profit but they did not buy a single one.

The three respondents who did not know about stock split obviously had never bought a split stock. Respondent - 1 explained that he is not interested in knowing any corporate action. He has his own beliefs in choosing stocks. He clearly said: *"I do not know what a stock split is. I am not even interested. I just invest in prospective stocks"* Respondent - 5 also said that she did not know what a stock split is. Therefore she had never bought a single one. *"Unfortunately I had never bought a stock split. I do not even know about it."*

Respondent - 6 also showed that he had no idea what is a stock split. he confessed: *"I do not really understand with such a term. All I know is only invest in good companies"* Those three respondents, Respondent - 1, Respondent - 5 and Respondent - 6 showed a characteristic of passive investors. They do not enriching their selves with any of investment terms in the market, all they know is investing in good and prospective stocks.

Generally, Manado investors understand the main point of a stock split. They agree about how a stock split could generate more investors in buying the splitting stock. Logically, when investors collectively buy a certain stock, the price would absolutely go up. Stock split happen to make a stock become more attractive to investors, especially small investors, which is increasing demand and then boosting its price (Berk and De Marzo, 2007:561-563). Besides the fact that mainly Manado investors understand about stock split, yet the actual action of buying a split stock still very low. Most of Manado investors had never experienced the actual action. Oppositely from what they know about how stock split attracts investors, investors in Manado are not positively reacting. Not to mention the ones those basically do not aware about stock split. Then it turned out that their perception might not walk in parallel with their action.

Stock preferences and attractiveness to stock split

In buying stocks, investors might have several ways in determining the best ones from the market. In this case, stock preference refers to certain type of stock that investor prefer to buy. There are two ways of analyses that commonly known and used in decision making process. There are fundamental and technical analyses. Fundamental analysis examines company's earnings and dividend prospects, expectation of future interest rate and future evaluation in order to determine proper stock price (Bodie, et al., 2005:377). Besides company's financial statement study, fundamental analysis is also about current economy situation and industries analysis. And technical analysis is about historical prices and charts. Basically, technical analysis is used to find the recurrent and predictable pattern in stock price (Bodie, et al., 2005:373). And derived from that, investor's attractiveness to stock split could be seen. Stock preferences and attractiveness to stock split is quite related to each other. Based on investors' preferences, then it will be explored about how they think about stock split. Because of that relation, those two are going to be explained together. Every investor has their preferences in choosing stock. In order to find out about investors' preferences in choosing stock and their attractiveness to stock split, there are questions prepared: What are your techniques in choosing stocks? And are you attracted to stock split?

As an answer to the first question, Respondent - 1 explained that he thinks logically in choosing his stocks. He explained: *"Logically, investors will buy stocks of companies that provide products that will last for a long time. For example food companies. People will always need food, so food companies will always run."*

Respondent - 1 stated that he only invest in those type of stocks. He also added some example besides food companies that have high demand, such as cement producer or technology companies. He believed that those companies will last long because of the demand that always exist. For the second question, Respondent - 1 said that he do not interested in that. He just wants to invest simply on those types of companies he mentioned before.

Respondent - 2 answered to the first question with quite a detailed answer. He said that he used a combination of fundamental and technical analysis in choosing his stocks. He said: *"I will check first about a company's profit, is it good or not? And also Price Earnings Ratio, is it considerably cheap or not? After that I'll check the charts that will confirm for a decision."* Respondent - 2 answered to the second question with a different opinion with Respondent - 1. Respondent - 2 stated that he feels that stock split is quite attractive for him. Especially after he experienced himself about the profit he got from buy-and-sell a split stock.

Respondent - 3 shared quite similar opinions with Respondent - 2. He said that he preferred to check for a companies' fundamental situation. *"A good stock is come from good fundamental companies. Obviously the stock must be listed in LQ45 index for proofing its fundamental and liquidity."* He believed that LQ45 index is representing the good fundamental stocks. Moreover, he added that liquidity of the stock must be good too, so it's easier to trade. For the second question Respondent - 3 expressed his interest in his answer: *"Information about any corporate action is very important. Just like stock split. A stock that split is expressing a good performing company. The management must be thinking about the prospect of its stock."*

His attractiveness to split stock is shown in his experience of buying a splitting stock, and also his awareness of any rumors and information inside the market.

Respondent - 4 showed quite similar answer with Respondent - 5 in his preferred stocks. Respondent - 4 also noted that stocks in LQ45 index are his favorite. *"For me, I just have to see the company's prospect. Definitely, the stock must be in LQ45 index."* Respondent - 4 showed that he relies on this index for determining a good prospect companies. He also added that he tend to follow market trend in his decision making process. *"I also check regional market trend. If the market trend is positive, I will follow buying the stock."* In other word, Respondent - 4 follows the crowd. If people buy a certain stock, he will likely to follow and buy it too.

Respondent - 5 answered quite similar answer with Respondent - 2. She said that she used fundamental and analytical analysis in her decision making process. *"I preferred good performing companies. It can be seen by checking their financial statements, like comparing their Price Earnings Ratio. I also check them by using technical analysis. That's a must."* Respondent - 5 showed that the fundamental and technical analyses are the basic for choosing stocks. She likes to compliment her analyses with rumors too. But particularly, she is not bond to any corporate action. She answered the second questions as: *"I am not really attracted to corporate actions. It is meaningless for me."* She explained her reasons for under-reacting to stock split. She believed that stock split does not determining a company's future performance.

Respondent - 6 also answered the questions with a common answer. He chooses his stock according to financial report released by the company. *"I only choose stocks that considerably well in performance. When they release their financial report or performance report, I just have to choose the ones that I wanted to buy."* Respondent - 6 explained that he does not completely believed in rumors or easily attracted to corporate action announcement, just like stock split. He stated that one should check the stock themselves for proofing the performance in previous years. Just like previously said by Respondent - 6 about his knowledge about stock split, which is almost nothing, he explained that he is not attracted to it. All that he believed, good performance companies would never go wrong.

Respondent - 7 answered the first question also with those typical answers above. His preferences in buying stocks are good performing companies. Those good performing companies are checked by him using fundamental and technical analysis. He also responded to the second question quite similar with others. *"I implement fundamental and technical analyses when I want to buy a stock. Like examining a company's background, financial report, etc. Also reviewing a stock historical prices for getting a clearer preview of a stock."* Respondent - 7 also thought that basically rumor is running hand-in-hand with fundamental and technical analyses. So, one should not believe solely on rumors, but also the analyses. Respondent - 7 answered the second question carefully. He said that stock split is quite neutral for him, which is not really a good or bad news. *"Stock split is just any common information in the market. One can take it or not, but the decision is depend on the implementation of fundamental and technical analyses."*

All the respondents are showing quite similar answers. Most of them believe in fundamental and technical analyses. Respondent - 1, Respondent - 4 and Respondent - 6 are having similar preferences. They are

only seeking for fundamentally good companies, without really bother for its technical analysis. The three respondents believe that any companies that run well for years ago will also the same for the years next. Based on their stock preferences, it has shown that stock split is not really attractive to them. They don't really know about the term and not planning to acknowledge themselves with any similar events.

Respondent - 2, Respondent - 5 and Respondent - 7 showed similar tastes in choosing stocks. They preferred to choose stocks with both fundamental analysis as basic and technical analysis as a compliment. All of them stated that financial reports are showing companies' performance. The term Price Earnings Ratio also mentioned as a tool of comparison. They appeared to be very careful in choosing stocks. Respondent - 2 and Respondent - 7 aware about stock split. But Respondent - 2 showed quite a positive remark for stock split and open to another change, while Respondent - 7 showed a neutral remark. He agrees that stock split would be profitable, but only for the companies, because of the liquidity. While for investors is still uncertain, that is why the analyses should be implemented. The other side, Respondent - 5 is careless about stock split. She believed that the analyses that she implement are enough for having a good stock investment. The only one that showed high appreciation to stock split is Respondent - 3. He also used fundamental and technical analyses in his decision making process. But, he trusted any companies that splitting their stock. For him, a stock split itself is proofing good fundamental companies. So it is best to buy a splitting stock as soon as possible and wait for the time to sell it again. Respondent - 2 believed that rumors play an important role for investors' decision. He always pays attention to any rumors in the market. After that the analyses come to make a confirmation.

According to the findings, it could be seen that mainly investors in Manado are very fond to fundamental analysis. Just like Hirschey and Nofsinger (2008:11) stated that economic fundamental plays a role in the money growth process, investors in Manado also seeking for the fundamental state of economy and companies' condition. Investors in Manado mainly use their logic to generate their decision in choosing stocks according to finance theories and ratios. The reason of investors using analyses in doing investment is that they only want good performance company's stock that going into their portfolio. That basic knowledge leads to investor's resistance of any other information from the market, like stock split.

Investment period and fund allocation

There are two categories of investing which investors usually fall into, investing for long-term or investing for short-term. Both are having their own benefits and drawbacks. Long-term investment is about buying and holding a stock for a long period of time. This strategy obviously requires patient and dedication. Long-term investment also will be better for inexperience investors, as theory will not bother to understand market. Short-term investment is about buying and selling a stock in a short period of time. Most of short-term investors are known as trader. This short-term investing requires lot of knowledge about market movements. The three most important factors in stock investment are rate of return, the amount of time investing and the amount of funds allocated (Hirschey and Nofsinger, 2008:3). This statement aligns with findings from Manado investors. The amount of funds allocation to stock investing become of the determinant of their reaction to stock split. In the interview, respondents were expressing their thought about stock split and their personal investment. Even without giving a certain question, it comes out that their objectives and fund allocation also related to their decision of buying a stock that split.

Respondent - 1 clearly stated that he only invest for a long-term period. He said that once implementing the analyses of fundamental to the companies, he would hold the stock for a long time, as he expecting that those stocks will be giving lot of profit in the future. *"I am buying stocks and holding them for a long time. I don't like to be a trader that everyday checking their portfolio and doing buy-and-sell. I don't have time for that."* Respondent - 1 expressed that he is dedicated for a long-term period of investment, which is not requiring him to check the market every day. That is why he is not aware and interested in stock split. He also stated that it he is more comfortable with a long-term period of investment. *"If one doing a long-term investment after checking the fundamental of companies, it is easier to sleep then. It is also more suitable for me because of my job, unless I'm unemployed or very rich."* Respondent - 6 also shared a similar opinion. He invests for long-term period of investment. He stated that the good stocks should be kept for the future. *"There are several good stocks that I keep for a long-time. It would be good because of the prospect of those stocks are promising."* Thus, Respondent - 1 and Respondent - 6 were showing similar preferences in their period of investment. Both are expecting a long-term benefit from the stocks they chose. And because of the dedication for being long-term period investors, Respondent - 1 and Respondent - 6 are neglecting any corporate action such as stock split.

Respondent - 2, Respondent - 3 and Respondent - 4 shared similar stories. Three of them are investing in both short and long term investment. They appeared to more likely to be traders but still they keeping the best

ones for a long time. Respondent - 2 and Respondent - 3 are the ones that bought splitting stocks, and already took profit from that. Those profits are taken from capital gain. As traders both respondents are following the market well, that is why they could aware and even get to experience the stock split themselves.

Respondent - 4, Respondent - 5 and Respondent - 6 mentioned about their fund allocation to their stock investment. Respondent - 4 confessed that he once had a chance to buy a stock that split, but did not buy it. He regret by saying: *"I once wanted to buy a stock that split a few times ago, but unfortunately I couldn't. My funds are not enough for that stock."* Respondent - 4 showed an interest to a stock that split, but his fund allocation to stock investment is limited, so he held back. Even though Respondent - 5 and Respondent-6 are not having interest in stock split, but they also said that their fund allocation is not much for stock investment.

Manado investors are mainly focusing in long-term investing. Long-tem investors are not necessarily looking up for stock split announcement. Therefore they are very rare to be exposed to market recent information. While for the traders or short-term investors, market information is easily known because of the efforts that often made to get profit in a short time. Conflicting incentives which are financial reasons for generating an action, and investors' psychology affect investment decisions (Hirschey and Nofsinger, 2008:14). In this case, investors in Manado are being conservative for any information that unfamiliar for them. Recalling their stock preference and period of investing, it is obvious that investors in Manado are lack of knowledge about stock split. Besides investors' amount of time spent in investing, their amount of money also become of the determinant factors in investment decision. Even though it is kind of additional reason, but having more money to spend will make investors become more comfortable to 'walk around' the market and buy any good products found.

Table 1. General Findings

Manado investors reaction to stock split	Reasons
Under-reacting	<ul style="list-style-type: none"> - Less exposure to the market information and situation because of the long-term period of investment that requires almost no time to check on market. - The strictness of how stocks should be chosen. (by using analyses) - Fewer funds that is allocated for stock investment.

Source: Data Processed, 2013

All of the evidences that previously discussed point to the under-reaction of investors in Manado to stock split. This statement also answered this research problem which is asking about how investors in Manado react to stock split. This research's result is supporting the research from Ikenberry and Ramnath (2002) about market under-reaction to stock split. They found out that the reason for the under-reaction is companies' fundamental operating performance. The similar result also comes as one of the reasons of Manado investors' under-reaction. However, this result evidence contradicts with the market efficient theory which is stating about stock price should be adjusting following information. Just like a study by Fama, et al (1969) about market supporting the efficient theory, there was price adjustment following stock split announcement.

CONCLUSION AND RECOMMENDATION

Conclusion

The result and discussion show that investors in Manado are not attracted to stock split. Investors have awareness about stock split and its objectives. But instead of being positively reacting to the event, Manado investors are doing the opposite. Manado investors are showing an under-reaction to the stock split announcement. It is found that there are three reasons that come as the secret behind the under-reaction. They are less exposure to the market because of the long-term investment, the rule of analyses and amount of funds.

Recommendation

Several recommendations from several perspectives: (1) for investors, it is recommended to keep doing a good and planned investment especially for a long-term investment. Even so, it is also good to acknowledge about market current situation of events, especially for those who less aware about stock split. For short-term

investors, it is also recommended to pay attention for certain corporate action like stock split; (2) for companies that listed their stock in stock market, it is obviously better to enhance company's fundamental performance before doing certain corporate action. Because it will assures investors about their future decision. It is also needed to do more socialization about any corporate action such as stock split in order to reach more investors that have less awareness about it; and (3) for the next research, it will be better to conduct the same research at different region, or in the wider region. It is also better to try a bigger number of respondents in order to get a clearer result.

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