# Do Stock Splits Really Signal?

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## Abstract

Although stock splits seem to be purely cosmetic, there is ample empirical evidence that they are associated with abnormal returns. This study analyzes the effect of stock splits using intraday data and insider trading data in Hong Kong from 1980 to 2000. Consistent with the findings of other countries, we observe positive price reactions in Hong Kong. These positive reactions can be attributable to improved liquidity and favorable signals. Our microstructural analysis shows that stock splits improve corporate liquidity. Regression analysis shows the presence of a possible signaling role for split announcements confounded by increased liquidity. We further use the abnormal insider trading activity to assess the informativeness of the split signal. We find abnormally high insider trading activities three to four months before the split announcement and in the post-announcement period, however, insider trading activities in the two months immediately before the split announcement is immaterial. Our results suggest that firms use stock splits to signal in order to increase liquidity.



*Keywords*: Stock splits, signaling, liquidity, insider trading.

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