

ABSTRACT

This research is aimed to test and analyze informationally semi-strong market efficiency towards reverse stock split event. There are various reasons as to why company conducted reverse stock split. The announcement of reverse stock split activities could also affect the market reaction. This activity is often seen as a negative signal by investors.

Hence, the variables measured in this research are abnormal return (AR), trading volume activity (TVA), and bid-ask spread. Market adjusted model is used in this research to determine the return during the window period which is ten days before ($t-10$) until ten days after ($t+10$) the announcement of reverse stock split.

Data gathered is a secondary data taken from ICaMEL, Indonesia Stock Exchange (IDX), Kustodian Sentral Efek Indonesia (KSEI), and finance.yahoo.com. With using purposive sampling as its sampling method, this research took 12 out of 19 companies available in the population. Kolmogorov-Smirnov is used to determine normality. While, to test the market efficiency, the existence of abnormal return and its rapidity to be absorb in the market are used. Whereas, One Sample t-Test and Wilcoxon Signed-Rank test are used to test the hypothesis with a 5% significant level.

The results show that there is negatively significant abnormal return around the day of the announcement of reverse stock split which are in the day of the announcement ($t-0$), seven days after ($t+7$), and eight days after ($t+8$) the announcement. There is also a significant difference on trading volume activity and bid-ask spread before and after the announcement. It indicates that reverse stock split has information and affects trading volume activity and bid-ask spread.

With the existence of negatively significant abnormal return on day seven and eight after the announcement, it can be concluded that investors do see reverse stock split as a negative signal and Indonesia Stock Exchange (IDX) has not yet achieved informationally semi-strong market efficient.

Keywords: Abnormal return, Trading volume activity, Bid-ask spread, Reverse stock split, Event study