Ex-day returns for stock distributions: 
An anchoring explanation

Eric C. Chang  
The University of Hong Kong  
ecchang@business.hku.hk

Yan Luo  
Fudan University & The University of Hong Kong  
luoyan@fudan.edu.cn

Jinjuan Ren  
The University of Macau  
jinjuanren@umac.mo

15 January 2011

Abstract

We propose an anchoring argument to explain the abnormal returns on the ex-days of 
stock splits, stock dividends, and reverse stock splits. We develop an anchoring model and 
find supporting evidence that stocks paying stock dividends or splitting their shares have 
positive ex-day abnormal returns, and that stocks reversely splitting their shares have neg-
ative ex-day abnormal returns. Cross-sectionally, the ex-day abnormal return is positively 
associated with the split factor and this positive association decreases with the split factor. 
In particular, when the split factor is 0.5 or 1, which is common and more visible, the an-
choring bias is less severe. In addition, we document that the magnitude of the abnormal 
returns on the ex-days of stock distributions is greater among stocks that are largely traded 
by unsophisticated investors and stocks whose ex-day signal is noisier. (137 words)

Key words: anchoring, stock dividend, stock split, ex-day return