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For more than sixty years, researchers have examined common stock returns, mostly in the U.S., around the time at which the stocks get listed on a major stock exchange. Although they use samples from various time periods and employ several analytical techniques, preponderance of earlier studies reported a similar pattern in price behaviors. Namely the stocks tend to rise in price prior to the listing but immediately decline thereafter. More recently, researchers pay attention to the long-run post-listing performance of those stocks. McConnell and Sanger (1987) found that the stocks tend to keep on declining after the actual listings. Dharan and Ikenberry (1995) also report the stocks’ poor performance over the period of three years after the listings. This post-listing poor stock performance has been treated a puzzle. Several researchers including Dharan and Ikenberry (1995) insist that such negative drift takes place because of the deliberate scheduling of the listing by the corporate managers, i.e. managers purposely apply for admission into a new exchange when their companies’ performances are at their peak. Our purpose here is to investigate whether Japanese managers are engaged in the similar behavior.

For analyzing the long-run returns, methodological issues come to play an important role. Antecedent studies of the methodologies in measuring a long-run stock performance suggest that we should construct a reference portfolio based on the size and the book to market ratios and use it as a benchmark. Therefore, we constructed the 25 (5x5) reference portfolios and computed the sample’s abnormal return by subtracting their returns.

Our findings about the behavior of 616 sample firms in Japanese markets provide interesting comparisons with those of the U.S. We found no post-listing negative drift in Japanese markets. Rather, stocks moved to other exchanges have shown a significantly positive buy and hold abnormal return (BHAR). We also investigate the impact of the deregulation policy implemented by the Tokyo Stock Exchange (the TSE) in 1999. Before the deregulation, the number of stocks listing to the TSE was relatively small but the BHAR of those stocks were significantly positive. In the post-deregulation period, however, their BHAR turned negative, though not statistically different from zero. This may possibly imply that the managers’ opportunism is not the real reason behind the lingering post-listing return. Listing criteria and procedures by the exchange may embrace some keys to the post-listing puzzle.
References


