SHORT-TERM PERFORMANCE OF FOREIGN FOOD AND BEVERAGE EQUITIES TRADED ON THE NEW YORK STOCK EXCHANGE: DO THEY OUT-PERFORM THE MARKET?

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ABSTRACT

With the advent of free trade agreements such as the General Agreement on Tariffs and Trade (GATT), the North American Free Trade Agreement (NAFTA), and the Asian-Pacific Economic Cooperation (APEC), countries are reaping economic benefits. From 1980 to 2001 world trade more than tripled. Lower prices of goods produced in foreign markets create greater sales and greater revenues for the producing countries and their firms. During the past several years, imports of food and beverage are steadily increasing. The growth of international trade may be an opportunity for investors in the United States to reap profits in the food and beverage industry. An increase in trade volume translates into greater sales, higher profits, and potential growth in stock prices and dividends. The purpose of this study is to determine whether foreign food and beverage industry equities traded on the New York Stock Exchange earn returns greater than the market return during a 21 day period after the security is issued. Data are derived from all newly issued food and beverage American Depository Receipts (ADRs) listed on the New York Stock Exchange (NYSE) from January 1987 to December 2001. A total of 23 equities are included in the study. Of the 23 ADRs, 11 are beverage equities and 12 are food equities. As a case study of performance, no adjustments are made to the data for changes in the economic environment of the foreign countries or the U.S. during the study period. Random events that influence stock prices are risks assumed by the investor. The study attempts to observe actual gains or losses that the typical investor may earn during the 3- year holding period. Cumulative excess returns are examined over a 21-day period following the date the security is listed on the New York Stock Exchange. The S&P 500 Index serves as a proxy for the United States market returns. Cumulative average excess returns (CXR) are calculated and tested using a Z-score to determine significance at the .10 alpha level. Findings show that returns from the listed foreign food and beverage equities during the 21-day holding period perform .73 percent better than the market returns. Further analysis reveals that the foreign food industry securities perform poorer than the market while beverage securities earn returns slightly above the market returns. Implications are that U.S. investors may tend to increase profits by purchasing foreign beverage equities during short-term trades and therefore minimize investments in food industry equities.