

THE EFFECT OF SHARE SPLITS ON ISHARE EXCHANGE-TRADED FUNDS

Paramita Bandyopadhyay, California State University Long Beach, 1250 Bellflower Blvd, Long Beach, CA 90840-5742, 562-985-2646, pbandyop@csulb.edu

James C. Hackard, Southern Illinois University Edwardsville, Edwardsville, IL 62026-1102, 618-590-5195, jhackar@siue.edu

Yiuman Tse, University of Texas at San Antonio, 501 West Durango Blvd., San Antonio, TX- 78207, 210-458-2503, yiuman.tse@utsa.edu.

ABSTRACT

We examine the pre-and post- split behavior for trades and quotes of iShares that split in June 2005 to determine whether the resulting price changes, bid-ask spread, trade turnover, average dollar-size trade, frequency of small trades, trade price location, order imbalance, and abnormal returns are indicative of broker promotion or of investors delaying trades until after the split in order to avoid the inconvenience of due-bill processing necessitated by pre-split trades. Studying the effects of share splits for twelve iShare ETFs issued by Barclay Global Investors, we examine the two hypotheses that have been advanced for the pattern of trade and quote price and activity behavior surrounding stock share splits. The broker promotion hypothesis suggests that brokers will influence their small investors to delay purchasing shares until after a split so that the brokers may profit from the increased bid-ask spreads arising from the split. Evidence of increased realized spreads would be consistent with this hypothesis, as would a decline in average order size, increase in frequency of small trades, trade prices that are closer to the ask price and an increase in the buy order imbalance. An increase in post-split daily turnover would be consistent with the trader inconvenience hypothesis.

We find that there are increases in spreads and frequency of small trades and the decrease in average trade size experienced by the split iShares that are consistent with the broker-promotion hypothesis, while there is a significant increase in daily turnover after the split that is consistent with the trader inconvenience hypothesis. Neither hypothesis is supported by the trade-price location parameter and by trade imbalance in the post-split period. We find that three measures (bid-ask spread, average dollar order size and frequency of small trades) fail to reject the broker-promotion hypothesis, while the increase in post-split turnover fails to reject the trader inconvenience hypothesis. From this we conclude that there is more support for the broker-promotion hypothesis than for the trader inconvenience hypothesis in the iShare split.