

FIN06

When Do Dividend Changes Signal Future Profitability?

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Abstract

This paper examines whether dividend events signal future earnings changes and whether their signaling power is conditional on past earnings. We find that both dividend initiations and dividend increases are associated with positive future earnings changes, even after accounting for standard determinants of future earnings. In contrast, dividend suspensions predict a 5.72% decrease in future earnings for the following year, while dividend cuts provide no incremental information. The signaling power of dividend changes is conditional on the persistence of past earnings. When dividend changes are in the same direction as past earnings changes, the predictive power of dividend events follows the direction of past earnings changes, except in the case of dividend cut. Conversely, when dividend changes are in the opposite direction of past earnings changes, those events can positively predict future earnings, with the exception of dividend initiation.

Conference Track

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