

DOCTORAL THESIS

A Study on the Forecasting Performance of Stock Futures on Dividend Payout

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ABSTRACT

This study tests the performance of stock futures in forecasting cash dividend payment and dividend yield and to determine how and to what extent dividend surprises affect stock and stock futures returns. The study is motivated by an assertion that highly leveraged financial instruments such as stock futures are preferred to cash assets for informed and professional traders to maximize their return on equity or margin deposits from (presumably) their superior information; consequently, stock futures represent an agglomeration of expert market views on a company's prospective dividend payment. However, the estimation of upcoming cash dividend from stock futures price can be distorted by uncertainties with respect to future discount rates, ex-dividend and dividend payment dates. The unconventional monetary regime in the aftermath of the subprime crisis with materially zero savings deposit interest rate - the rate assumed for the marginal or representative trader, immunize the analysis from the potential distortionary effects of the above factors and allow the study to extract the implied cash dividend directly from the futures contract. The study finds that stock futures provide significant information, though biased, on upcoming cash dividend. The thesis contributes to the academic literature on the informational role of derivatives trading. Furthermore, a preliminary test shows that the futures forecast has a good potential to produce a significant economic benefit to proprietary traders.

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