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ABSTRACT

ARIFA ISLAMIE (0904100064), *Seasoned Equity Offering (SEO) Announcement Effect to Stock Return and Stock Trading Volume Based on Degree of Financial Distress Risk: Empirical Study of Manufacturing Firms Listed on Indonesia Stock Exchange in The Period 2001-2007,*
xiv + 104 pages + 24 tables + 13 pictures + 6 attachments + 40 bibliographies (1972-2007).

This research examined the announcement of seasoned equity offering to stock return and trading volume. This study grouped its sample by degree of financial distress risk. When managers realizing that the distress risk is rising, a firm will choose financed its activity by equity rather than bond. If investors recognize this chain of events, then the stock price will decrease by the announcement of seasoned equity. It's called **the static tradeoff** between tax benefit and distress risk from debt-financing (Myers, 1989). The purpose of this research is to know the behavior of stock return and trading volume for each sample group.

SEO announcement is an interesting subject because it has no hypothesis which best described the phenomenon on each capital market within a country. There are many different SEO effects depend on its capital market structure and efficiency which is support **the efficient market hypothesis** (Fama, 1970). Asquith and Mullins (1986) found signaling as the answer of negative price reaction, while Tsangarakis (1996) found investment opportunities as response of positive price effect.

This research is using an event studies method in order to meet its objectives. By 41 days of event period, this research wants to get better return and trading volume behavior around announcement day. But, since bigger firms has harder public exposure, then this research restrict its event only for formal announcement done by Indonesia Stock Exchange (IDX).

The result support Asquith and Mullins research and there is no evidence that Indonesian investors knowing about financial distress risk owned by listed firms. Significant cumulative average abnormal return was found in every sample group. Negative price effect was larger for group with high financial distress risk. On the contrary, higher volume turnover was booked by the group of high financial distress risk.

This study suggested listed shares not to issue equity if its purpose is to do a financial restructuring. Because, once investors realize that distress risk have had risen, stock price will fall and the trading volume will be lessen. Further study could do some improvement by measuring the operating performance of the SEO firms, use other financial distress prediction model, or use other stock return calculation model.