

More Evidence on Costless Signaling in Open Market Stock Repurchases

Mohammed Alzahrani *

King Fahd University of Petroleum & Minerals, Dhahran 31261, Saudi Arabia
Tel: +966 3 860 1626, Fax: +966 3 860 2077, Email: mfaraj@kfupm.edu.sa.

Abstract

This paper tests whether repurchase announcements made by firms that had announced repurchase program before and did not buyback any stock (cheap talker) is of different value to investors than repurchase announcements made by firms that had announced repurchase program before and buyback stocks (costly signaling). Through testing the mean of three day (-1 to +1) cumulative abnormal return around 146 announcements made by cheap talkers and 620 announcements made by costly signaling firms, I found no statistical difference between the means of both kinds of announcements. This result supports the hypothesis that costless signal has value by itself and carry the same information content as the costly signal.