Vanishing Stock Dividends

Abstract

We document that stock dividends are vanishing: the probability that a firm distributes stock dividends to shareholders decreases by the factor of 75 over the six decades from the 1950s to the 2010s. In 2017, only five industrial firms distribute stock dividends, representing less than 0.2% of the industrial firms listed in the United States. Why are stock dividends vanishing? We find that the vanishing of stock dividends is not attributable to changing firm characteristics over the six decades. Our review of the history of stock dividends indicates that people—including shareholders and the judicial, tax, and accounting authorities—commonly misunderstand the economic substance of stock dividends and mistakenly equate them to cash dividends in the early American commercial history. The investors gradually learn and correct the misunderstanding; during the process, their demand for stock dividends dwindles. In addition, institutional investors, who are more professional than retail investors and are less likely to misunderstand the economic substance of stock dividends, own more and more corporate equities in recent years and thus help correct the misunderstanding. Consistent with the misunderstanding-learning hypothesis, both the Granger causality tests and the instrumental variable regressions suggest that institutional investors have causal and negative effects on the firm's propensity to distribute stock dividends.

Keywords: vanishing stock dividends, investor learning, signaling

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