DOES FREE FLOAT AFFECT SHAREHOLDER WEALTH? NEW EVIDENCE FROM THE STOCK EXCHANGE OF THAILAND

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ABSTRACT. This research aims to investigate alternative investment illiquidity stocks in an emerging market, the Stock Exchange of Thailand. The new sample, illiquidity stocks, is evaluated by the ranking of stock trading volume from 2011 to 2012. Data screening yielded 163 listed companies. The OLS model is applied with quarterly data for the study period from 2011 to 2014. Because of the reflection between ROE and TOBIN Q, the usage of the OLS model might lead to biased results due to the autocorrelation of the variables. Thus the TSLS model is applied for the final prediction. The results of the study may be important; in the case of stocks with low liquidity, shareholder wealth depends on investor choice as to whether they prefer a quick payment as a dividend yield, or whether to wait to receive the return from company reinvestment in the future. The regulators could apply the results in decisions about free float criteria. Alternative investment could be supported by encouraging the issue of stock analysis reports.

1. INTRODUCTION

Funding is one of the main contributors to the success of the firm. One of the main objectives for companies to go public is to create shareholder wealth through the initial public offering process (IPO). Most Thai listed companies are under the control of family shareholders (Suehiro and Wailerdsak, 2004). Most listed companies are classified as small to medium-sized enterprises (SMEs) with the major source of revenue being from the local market. The GDP of Thailand is currently about 13 Million Baht (approximately 0.361 Million U.S dollars). The country's economic development lacks innovative technology so exports rely on primary production e.g. the sale of raw materials or the basic stage of production. When there is no opportunity to make a high growth rate, it is no needs to find a lot of external funds. The family shareholders as the controlling shareholders do not want to sell their own stake in order to make the confidence of their controlling power on the listed company.

The awareness of controlling power on SET listed firms could lead to a lower free float ratio of these stocks. Free float is defined as the shares held by retail investors or the total outstanding shares after subtracting the number of restricted shares, held by major shareholders. Normally, the major shareholders of the listed companies on the Stock Exchange of Thailand (SET) are related to the board members of these companies and top management of the companies.

A company's free float is important to potential investors, especially institutional investors. The free float is closely related to the liquidity of stocks and their share price volatility. Stocks with small free float tend to be more volatile because there are only a limited number of shares that can be bought or sold in the event of major trading news. (http://www.investinganswers.com /financial-dictionary/stock-market/free-float-3579).

Free float is the important issue for emerging markets. While the Philippine Corporate Governance Code proposes a minimum free float of 10%, a survey of the Philippine listed companies in the first quarter of 2013 shows that the free float is above 30% (Visto, 2013). Thai listed firms must meet requirements regarding their free float. The SET's Board of Governors requires listed companies to have at least 150 minority shareholders who hold not less than 15% of a company's paid-up capital, as shown on the shareholder list used for a company's annual general meeting of shareholders (AGM). If the companies do not satisfy the requirement for two consecutive years, they will be charged additional SET listed fees until the qualification is rectified. Additional fees are calculated based on the length of time in breach and the size of the shortfall in free-float (The Stock Exchange of Thailand's Board of Governor's notification 4th amendment, 2007).

The level of free float relies on the definition of principal shareholders or strategic shareholders. The SET defines free float as the remaining stocks after considering the shares of strategic shareholders. The strategic holders are one of these categories: *(1) top management officers including their families and relatives; (2) shareholders holding more than 5% of paid-up capital, together with related persons; (3) any persons who could influence a company's policy processes, management or operation significantly.*

This research proposes that the investment on illiquidity stocks could be an alternative investment for long term investors. Thus, the research objectives could be summarized as follows:

1. To investigate the characteristics of illiquidity stocks of listed SET companies.

2. To explore the investment benefits to the shareholders from low liquidity stocks.

The outcomes of this study could bring benefits in several ways as follows:

1. The free float effect on shareholder wealth could guide the market regulator as to whether the minimum requirement of free float should increase or not. Moreover, investors take into account the relationship between the free float ratio and shareholder wealth when making their investment decision.

2. Presently, the SET committee applies the turnover list ratio as one of the indexes to measure speculation. Securities with an irrational turnover list ratio compared to their PE ratio are enforced to trade only in prepaid accounts. The relationship between shareholder wealth and the liquidity index determinant has not been investigated in Thailand. Thus, the outcomes could support the trading policy of SET.

3. The study of the relationship between the free float and shareholder wealth for the Stock Exchange of Thailand through liquidity indication (i.e. turnover list ratio) could help the policy implementation of minority shareholders' protection and the measurement of market intervention through Thai regulation.

From a financial point of view, the maximization of shareholder wealth reflects the effectiveness of the financial function. Thus, shareholder wealth is defined as market capitalization. In this paper, the Tobin Q ratio, or the Q ratio, is applied as the shareholder wealth index. The Q ratio hypothesizes that the combined market value of all of the companies on the stock market should be about equal to their replacement costs (Tobin, 1958). The Q ratio is calculated as the market value of a company divided by the replacement value of the firm's assets.

Figure 1 presents the theoretical framework of this paper.

The theoretical framework proposes that companies hold assets to generate revenue. The valuation of real assets can be calculated directly from the present value of cash flows. When they transform to be listed companies, the liquidity from their separation to a number of register shares increases the firm valuation. However, the irrational behavior of major shareholders that limits the free float could underestimate the share prices. In the long run, these underpriced assets should follow the Gordon model (Brigham and Ehrhardt, 2014) who proposed that the intrinsic value of stocks comes from the summation of dividend and the future growth of firms' cash flows, which refers to the return on equity.
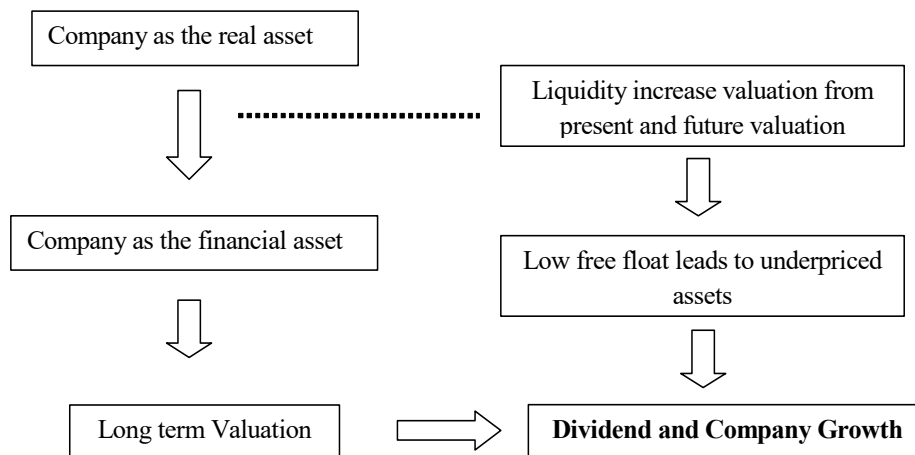
Figure 1: Theoretical framework development

2. LITERATURE REVIEW AND VARIABLE DEVELOPMENT

The relationship between free float and shareholder wealth in the Stock Exchange of Thailand has not been explored from the perspective of liquidity indication of the turnover list ratio. Therefore, this study presents new insights on such the relationship. Actually, the study on free float effect on shareholder wealth is against classical financial theory. For example the Capital Asset Pricing Model (CAPM) and the Efficient Market Hypothesis do not include the illiquidity of the financial assets in their assumptions (McGuigan et al., 2006).

Hamon and Jacquillat (1999) commented on the relationship between the size of the company and its stock return. They found that smaller capitalization stocks on average outperform larger capitalization stocks over long periods of time. They introduce a new proxy for size, which is the free float. Evidence is presented of a negative link between historical returns and free float. They proposed that liquidity premiums are estimated for portfolios from both a univariate and a multivariate perspective. Their results confirmed that measurements of liquidity and liquidity premiums together with risk premiums are useful in active asset management.

Fenghua and Yexiao (2004) applied the three-factor model to A-shares in the Chinese equity market. Size was found to explain the cross-sectional differences in returns, but contrary to findings for the U.S. market, the book-to-market ratio was not helpful. As in the U.S. experience, beta did not account for return differences among individual stocks. Because of the speculative nature of Chinese capital markets, the large proportion of government-owned shares, and the low quality of the companies' accounting information, the free float was added to the study to serve as a proxy for company fundamentals.

Lim and Coggins (2005) studied the immediate price impact of a single trade executed in the Australian Stock Exchange (ASX). On the top 300 stocks on the ASX for their free float market capitalization, it was found that higher cap stocks experience a lower price impact than lower cap stocks for the same trading volume. Moreover, there is a relationship between price impact and liquidity.

Rhee and Wang (2009) found that from January 2002 to August 2007, foreign institutions held almost 70% of the free-float value of the Indonesian equity market, or 41% of the total market capitalization. Over the same period, liquidity on the Jakarta Stock Exchange improved

substantially. It was found that foreign holdings had a negative impact on future liquidity as these holders were long term investors. Their existence lessened the free float of stocks. Their findings are consistent with the negative liquidity impact of institutional investor ownership in developed markets.

Lam et al. (2011) found that the switch to free-float weighting in the S&P 500 Index showed the effect of the availability of shares on liquidity in the medium term while the differences in liquidity and price impact measures gradually narrowed following each phase of the free float adjustment.

Chai et al. (2010) examined two empirical issues regarding stock liquidity: (1) the degree to which different liquidity proxies are correlated and (2) how different liquidity proxies are related to stocks' trading characteristics. Using data from the Australian equity market, their results confirmed prior research that stocks' trading characteristics are important determinants of liquidity. Though the relationships are generally consistent with expectations, some proxies react differently to certain trading characteristics. This finding is consistent with the contention that liquidity is a multifaceted concept and each alternative proxy may only capture a certain aspect of liquidity.

Mason (1988) studied the tax effects on asset values and investment decisions and found that the non-debt tax shield (e.g. the amount of tax carried forward or tax exemption) significantly affects the level of debt usage. Thus, the non-debt tax shield level (NDT variable) could affect the valuation of the firm.

An optimal debt level leads to a higher stock price. The LEV variable is defined as the ratio of total debt to total assets. The expectation on its relationship with TOBIN Q is positive as Modigliani and Miller (1958, 1963) proposed; when firms must pay tax, the value of firms should increase due to the borrowed capital.

The previous studies identified a relationship between corporate governance characteristics, size, dividend yield and valuation of firms (Daily and Dollinger, 1991; Gallo, 1995). Shareholder wealth is measured by TOBIN Q with ROA or ROE (Goopers et al., 2010; Lee, 2006; Zellweger and Nason, 2008).

The stock liquidity index used by SET is different from previous studies. The variables measuring market liquidity are diverse. For example, Amihud (2002) calculated the absolute daily return to daily trading value while Pastor and Stambaugh (2003) defined liquidity as the resistant degree of price change when there is more trading volume. Moreover, Liu (2006) applied the CAPM and the Fama–French three-factor model, describing the liquidity premium, subsuming documented anomalies associated with size, long-term contrarian investment, and fundamentals (cash flow, earnings, and dividend) to price ratios. Chai et. al (2010) developed an illiquidity index through turnover ratio and the Amihud model variables.

In this paper, the market liquidity measurement is applied on the turnover list ratio as the SET committee has already monitored the market by employing this index. The turnover list ratio is formed to be sample data of illiquidity stocks.

3. RESEARCH METHODOLOGY

In this paper, the observation on illiquidity stocks is developed in two stages. First, the sample list is selected on their turnover list ratio from 2011 to 2012. Secondly, the sample data are analyzed in the model with quarterly data from 2011 to 2014.

The research methodology relates to the previous studies which confirm that the listed companies in the East Asian region are controlled by a small number of families (Claessens et al., 2000; Anderson and Reeb, 2003). The valuation of firms represented by Tobin Q is determined by ROE (Hudson et al., 1992). Additionally, the research methodology mainly deals with structural equations. Ordinary Least Square (OLS) in structural equation modeling, namely Two-Stage Least Square (TSLS), is applied to estimate the path coefficient.

The research methodology mainly deals with structural models as two equation models are applied. The special relationship of the variable – an exogenous variable with its determination

from an outside equation is observed. In this paper, the concentration on Tobin Q as the endogenous variable is supported for type II errors with the implication of the Hausman test. The consideration of order condition and rank condition is recognized under the matrix form to limit the unidentified and the over-identified. The inferential statistics would apply the reduced form equations and save the residuals to create a series of fitted values by constructing new variables which are equal to the actual values minus the residuals.
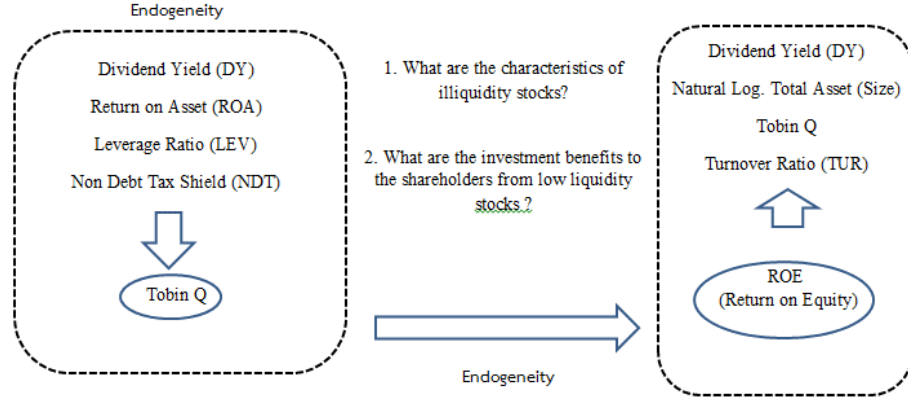

Figure 2: Model summary and research questions

In summary, the models of this research are as follows:

$$\mathbf{T}obin\ \mathbf{Q_{i,t}} = a_0 + a_1 DY_{i,t} + a_2 ROA_{i,t} + a_3 LEV_{i,t} + a_4 NDT_{i,t} + e_{i,t} \qquad (3.1)$$

$$ROE_{i,t} = b_0 + b_1 TUR_{i,t} + b_2 \mathbf{T}obinQ_{\mathbf{i,t}} + b_3 SIZE_{i,t} + b_4 DY_{i,t} + \omega_{i,t} \qquad (3.2)$$

Where:
• Tobin Q is the ratio between the sum of the company's market capitalization and its total outstanding debt divided by total assets.
• Dividend yield (DY) is the ratio of total dividend paid-out within the past 12 months and quarterly price.
• Leverage ratio (LEV) is the ratio of total debt to total assets.
• Non-debt tax shield (NDT) is the ratio of depreciation and amortization divided by total assets.
• Return on equity (ROE) is the ratio of net profit and total equity.
• Return on assets (ROA) is the ratio of net profit and total assets.
• Turnover ratio (TUR) is the ratio of average weekly trading value and average market capitalization on free float computing as follows:

$$Free\ Float\ (FF) = \frac{Total\ paid-up\ capital - Total\ stocks\ under\ strategic\ shareholder\ x\ 100}{Total\ shares}$$

$$Turnover\ Ratio = \frac{Average\ weekly\ trading\ value\ x\ 100}{Free\ Float\ Ratio\ x\ Average\ Weekly\ Market\ Capitaliztion}$$

• Size is the natural logarithm of total tangible assets.
The conceptual model of this study is proposed as shown in figure 2.

4. DATA SELECTION AND STUDY PERIOD

Illiquidity stocks are defined by trading volume, but the sample list could be stable only in the short term. Thus, the collation of a sample list of illiquidity shares is necessary. This study observes the trading volume of all SET listed companies from the 2011 to 2012. The implication of the bootstrapping technique on the SET index during this period returns nearly 0%, so the classification in this period is assumed to be stable as shown in figure 3. The SET index increases from its 2012 level. Its average daily trading value has also grown over the years. This is clearly a result relating to the free float ratio.
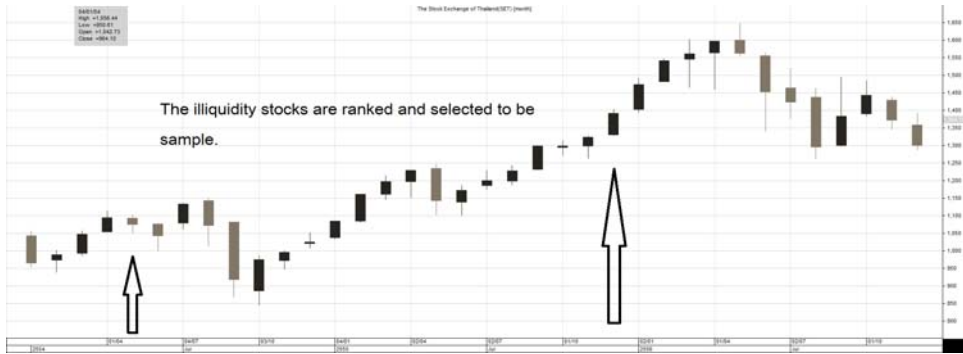

Figure 3: SET index movement and sample development

The total SET listed companies from 2011 to 2012 are 953 companies. The illiquidity stock list is developed by ranking the trading volume from all SET listed companies. With the period of screening of 107 weeks, the floating score is set on 3 levels; (1) a free float ratio less than 25% is 10 points (2) a free float between 25% and 30% is 5 points and (3) a free float ratio greater than 30% is 0 points.

The data collection for the model is quarterly data covering 4 years from 2011 to 2014. The sample list is screened to eliminate companies with the following characteristics: (1) voluntary delisted companies (7 companies); (2) companies under bankruptcy (6 companies); (3) companies under the merger and acquisition process (6 companies); (4) companies under debt restructuring (8 companies). The total number of companies on the sample list is, after adjustment, 163 companies. Figure 4 shows the development of the sample list of illiquidity stocks.
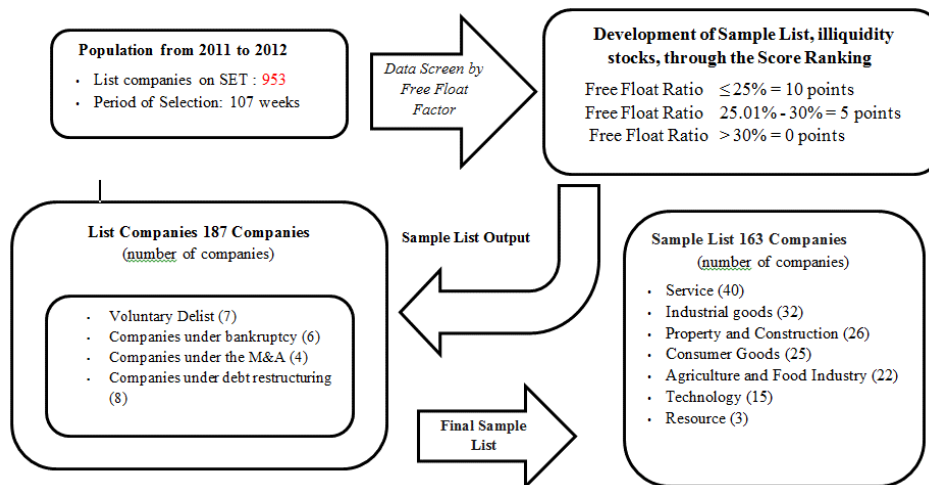

Figure 4: Sample selection and screening

5. RESEARCH OUTCOMES

Illiquidity stocks are developed for the first time in this study. The descriptive statistics of the sample are important as they display the characteristics of illiquidity shares. Table 1 shows the descriptive statistics of the sample. The global view of the sample reveals that low liquidity stocks have high dividend yield with an average of 4.16% compared with the average 12 month fixed deposit rate of about 2.5%. The leverage ratio implies that these stocks are conservative with an average ratio at 0.829. Return on assets and return on equity are on average above 10% while average ROA and ROE of the total SET is only 4% (SET Fact Sheet, 2013). Moreover, the exploration on the corporate governance score of the illiquidity stocks is on average 3.54 from 5. The corporate governance score is annually evaluated by SET subcommittees. It covers 5 aspects: (1) the rights of shareholders; (2) the equitable treatment of shareholders; (3) the role of stakeholders; (4) disclosure and transparency; and (5) the responsibilities of the board.

Table 1: Summary of the sample characteristics							
Items	DY	LEV	NDT	ROA	ROE	SIZE	TUR	TOBINQ
Max.	21.7602	4.694	0.092	59.880	78.970	7.801	413.690	13071.280
Avg.	4.1616	0.829	0.010	10.488	13.354	5.924	15.270	1232.585
Min.	0.1100	0.018	0.000	-16.740	-22.390	4.256	0.010	45.210
S.D.	2.7040	0.746	0.008	7.827	11.553	0.621	35.677	1185.971
Total Obs.	460	460	460	460	460	460	460	460

Tobin Q is the ratio between the sum of the company's market capitalization and its total outstanding debt divided by total assets; DY is the ratio of total dividend paid-out within the past 12 months and quarterly price; LEV is the ratio of total debt to total assets; NDT is the ratio of depreciation and amortization divided by total assets; ROE is the ratio of net profit and total equity; ROA is the ratio of net profit and total assets; TUR is the ratio of average weekly trading value and average market capitalization on free float; Size is the natural logarithm of total tangible assets.

The variables of the model are examined for correlations. The correlation between variables is less than 0.8 with the highest figure at 0.6730, but the VIF (Variance Inflation Factor) between TUR and ROA is only 6.20, which is less than 10.00. Thus, all variables are included in the model for the prediction.

Table 2: Correlation matrix summary							
Between	DY	LEV	NDT	ROA	TUR	SIZE	TOBINQ
DY	1.0000	-0.1670	-0.0050	0.2108	0.1566	-0.0616	-0.1464
LEV	-0.1670	1.0000	-0.0991	-0.1739	0.1085	0.4258	0.1935
NDT	-0.0050	-0.0991	1.0000	0.0852	0.0472	0.0903	-0.0999
ROA	0.2108	-0.1739	0.0852	1.0000	0.8730	0.1527	0.0366
TUR	0.1566	0.1085	0.0472	0.6730	1.0000	0.3073	0.1282
SIZE	-0.0616	0.4258	0.0903	0.1527	0.3073	1.0000	0.0226
TOBINQ	-0.1464	0.1935	-0.0999	0.0366	0.1282	0.0226	1.0000

Tobin Q is the ratio between the sum of the company's market capitalization and its total outstanding debt divided by total assets; DY is the ratio of total dividend paid-out within the past 12 months and quarterly price; LEV is the ratio of total debt to total assets; NDT is the ratio of depreciation and amortization divided by total assets; ROE is the ratio of net profit and total equity; ROA is the ratio of net profit and total assets; TUR is the ratio of average weekly trading value and average market capitalization on free float; Size is the natural logarithm of total tangible assets.

Table 3 and table 4 show the outcomes of OLS analysis for equations 3.1 and 3.2. The outcomes of OLS analysis on Tobin Q are shown in Table 3 with an adjusted R square of 55.98%. All independent variables are significant with p-values less than 0.01 except the LEV variable which is significant with a p-value less than 0.05. From the model, the valuation of shareholders could benefit from return on assets (ROA), leverage level (LEV) and tax shield benefit (NDT) but not dividend yield (DY). The explanation is that the illiquidity stocks concentrate on a specific business so they do not invest in a high level of fixed assets. The outcome of leverage

could imply that they operate in a conservative manner, probably to enhance the confidence on the small group of shareholders. The tax shield benefit reflects their behavior on government policy as the government lessened the tax rate for small companies from 30% to 23% from 2012 and to 20% from 2013 (www.rd.go.th, 2013).

Table 3: Outcomes of OLS analysis on Tobin Q with the Newey West Method				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	196.3246	132.6337	1.54292	0.14220
DY	-122.6569	21.8654	-4.12606	0.00000
ROA	132.3631	16.9986	5.68803	0.00000
LEV	133.2735	52.1262	2.14598	0.03120
NDT	33167.75	10322.7	3.18693	0.00130
R-squared	0.576421	**Durbin-Watson stat**		1.70439
Adjusted R-squared	0.559841			

Tobin Q is the ratio between the sum of the company's market capitalization and its total outstanding debt divided by total assets; DY is the ratio of total dividend paid-out within the past 12 months and quarterly price; ROA is the ratio of net profit and total assets; LEV is the ratio of total debt to total assets; NDT is the ratio of depreciation and amortization divided by total assets.

Table 4: Outcomes of OLS analysis on ROE with the Newey West Method				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-25.29076	6.25092	-4.04592	0.00010
TUR	0.04204	0.01486	2.82951	0.00490
TOBINQ	0.00514	0.00064	8.03234	0.00000
SIZE	4.54234	0.95818	4.74058	0.00000
DY	1.14354	0.27381	4.17649	0.00000
R-squared	0.41398	**Durbin-Watson stat**		1.729027
Adjusted R-squared	0.40883			

ROE is the ratio of net profit and total equity; TUR is the ratio of average weekly trading value and average market capitalization on free float; Tobin Q is the ratio between the sum of the company's market capitalization and its total outstanding debt divided by total assets; Size is the natural logarithm of total tangible assets; DY is the ratio of total dividend paid-out within the past 12 months and quarterly price.

The outcomes of OLS analysis on ROE are shown in Table 4 with an adjusted R square of 40.88%. All independent variables are significant with p-values less than 0.01. From the model, the wealth of shareholders could benefit from turnover ratio (TUR), market capitalization of equity and debt (Tobin Q), total assets (SIZE), and dividend yield (DY). The results suggest that an increase in TUR, Tobin Q, SIZE, and DY of 1% will increase ROE by 0.04%, 0.005%, 4.54%, and 1.14%, respectively. The outcomes imply that the illiquidity stocks that increase their free float would lead to higher ROE and the increase in their market capitalization would probably lead to lower cost of capital and more diversified sources to access. Moreover, the outcome of DY supports the dividend payout.

Equations 3.1 and 3.2 have been tested for the asymptoticity of the model as follows:

1. The test of stationarity through the Maddala - Wu Test for unbalanced panel reveals that the sample data has stationarity as the H_0 is rejected with the p-value from Chi-square of the Dickey-Fuller test of less than 0.01.

2. The multicollinearity test as shown on table 2 shows that there are no significant correlation coefficients greater than 0.8 between the variables (Harvey, 1990).

3. The heteroskedasticity test for model residuals (i_ε) as the unbiased predictor, consistency and efficiency of the model through White's heteroskedasticity test shows that the p-values of F-statistics are less than 0.05.

4. The assumption on the error term is that $\varepsilon_{i,t}$ and ω_i are uncorrelated where $\varepsilon_{i,t}$ and $\omega_{i,t}$ are i.i.d $N(0, \sigma^2)$ error terms. The DW statistic of the model shows some concern of positive autocorrelation; however, Harvey (1990) suggested that minor positive autocorrelation is a normal symptom for financial data research. To correct the autocorrelation, this study applies the Newey-West method where t-statistics are higher while the standard error through the Newey-West method is also higher, thus it adjusts the OLS underestimated true standard error.

5. The model extension to TSLS is a recursive model. The assumption of the study is that previous studies support only positive correlations between Tobin Q and ROE.

Thus, the outcomes shown in table 3 and table 4 lead to the prediction model of equation 3.1 and 3.2 of illiquidity stocks as follows:

$$Tobin\ Q = 196.32 - 122.66\ DY + \ 132.36ROA + 133.27LEV + 33167.75NDT \qquad (5.1)$$

$$ROE = -25.29 + 0.04\ TUR + \ 0.005\ TobinQ + \ 4.5423SIZE + 1.14DY \qquad (5.2)$$

To consider the relationships between endogenous variable error terms and exogenous regressors in the structural equations carefully, the two stage least square method is applied to extend the study. The order condition for the models is satisfied due to there being more than 6 variables (Tsai and Gu, 2007). For the rank condition, Tsai and Gu proposed that, "in the rank condition, the first equation in a two equation simultaneous system is identified if, and only if, the second equation includes at least one exogenous variable excluded from the first equation and the coefficient of the excluded exogenous variable has a non-zero coefficient" (2007, p.3). In this paper, the Durbin-Wu-Hausman test is conducted with the result of a p-value less than 5%.

The test of two stage least square (TSLS) yields the results shown in Table 5.

Table 5: Outcomes of TSLS analysis on Tobin Q with the Newey West Method				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	713.5241	240.9536	2.9613	0.00340
ROE	78.7708	17.7492	4.4380	0.00000
DY	-125.7182	42.0293	-2.9912	0.00310
R-squared	0.486034	**Durbin-Watson stat**		1.55638
Adjusted R-squared	0.476235			

Tobin Q is the ratio between the sum of the company's market capitalization and its total outstanding debt divided by total assets. DY is the ratio of total dividend paid-out within the past 12 months and quarterly price. ROE is the ratio of net profit and total equity.

The final equation of the study on the free float effect on shareholder wealth is equation 5.3.

$$TobinQ = 713.52 + 78.77ROE - 125.72DY \qquad (5.3)$$

The final outcome of this study may be important. The shareholder wealth of illiquidity stocks depends on the investors' choice as to whether they prefer a quicker payment in the form of a dividend or whether they would wait for future income. When the coefficient comparison of ROE and DY is applied, this study indicates that: (1) illiquidity stocks are highly related to a small group of shareholders so they benefit directly with a high level of dividend payout; and, (2) illiquidity stocks focus on a specific business so the management team carefully considers new investment. Thus, illiquidity stocks could be an alternative investment for long term investors.

6. CONCLUSION AND IMPLICATIONS

This study investigates whether the free float of listed SET companies has an impact on shareholder wealth by developing a new sample group. The sample group shows that they are mainly controlled by a few families who are majority shareholders, leading to a low free float. The descriptive statistics reveal that the return when holding these stocks is impressive considering their dividend payment. Thus, the study provides new evidence that illiquidity stocks are favorable investments which could be a form of alternative investment for long term investors. The reason is that investors could select stocks that match their needs as to whether they prefer current income from dividend payments or to enjoy the growth of the companies from their reinvestment.

Since 2014, the SET has employed the turnover ratio as the instrument to limit the speculative behavior of retail investors. While the Securities Exchange Commission (SEC) had employed the turnover list ratio as one of monitoring tools on the capital market, the SEC has not employed this monitoring method since July 2015. However, the SET still controls the market by using cash prepaid accounts for the trading of any stocks that show abnormal turnover ratios. This policy is against the purpose to increase the liquidity of the stocks.

Actually, the liquidity of stocks is the fundamental requirement by institutional investors, but the structure of Thai companies still relies on family business. With the promotion of more listed companies, the regulator should encourage low free float securities e.g. by stock analysis report issuance. Although more liquidity could make the share price more expensive, the higher PE ratio would make the listing process more lucrative for family controlled companies and the SET market capitalization would be higher.

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