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## The Market Status Tendency, the Corporation Specified Information, and the Market Announcement Effect of M&A

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### Abstract

The paper investigates the market announcement reaction of M&A and its hidden information contents, the corresponding empirical accounting analyses are executed completely based on the M&A capital market data covering 4 year's event from 2006 to 2009 and the hidden information contents are disclosed with some logically integrations from the view of behavior finance. Some valued conclusions can be achieved listed as follows: The loss corporations are inclined to launch M&A activities significantly during bull market period whereas there is not any significant market bull or bear mark; There are significant positive market reactions especially at the first day before M&A declared, After the declared day, the market reactions are negative at once during bear market whereas they are slow to become negative during the bull market, and there isn't any significant difference between bull market and bear market, but the significant difference is shown after M&A declared; The more perceptual features are shown in the M&A announcement effect in the pre-declared days than that of post-declared days, and the more perceptual features are also shown in the bull market than that of bear market during M&A activities. Thus some suggestions are pointed out including disclosing the corporations' information thoroughly, enhancing the supervisors' power strongly and cultivating the investors' competence, etc.

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*Keyword:* market situation, M&A, announcement reactions, corporation characteristic information, investors' behavior;

### 1. Introduction

Since the merger and acquisition is born all over the world, many fields of the M&A topic have been focused such as literatures [1-4] all over the world, and the market announcement of M&A has been specially played more attention than any other topic, but both the difference of market announcement reactions under bull-bear market situations in China and the role of the behavior haven't been sufficiently integrated to disclose some hidden facts, therefore, this paper plans to do some researches on the rational or irrational investors' behavior impacting the market tendency of market announcement reaction of M&A. Now the influence of the behavioral variables in China on the market reaction analyses is discussed.

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Firstly, epistemology tells us that the understandings of anything is always increasing knowledge in practice, continues to achieve the understandings of the nature, rises to rational understandings, which often constantly reaches the use of reasoning in the decision-making instead of being kidnapped by irrational thinking, but epistemology also tells us that any decision-making is always inevitably irrational factors, pure 100% rational thinking is basically impossible. The starting point of rational choice in economic activity is the essence of classic economics "economic man" hypothesis; market players always take the economic wealth maximization as a benchmark, whereas the irrational choice is often conducted by some intuitive feelings of environmental factors which cause the "herding effect". Obviously, the "bull market bullish, bear market bearish" is almost the golden rule of the principals of stock market, this irrational characteristics is particularly suitable for illustrating short-term announcement effect of security market. Based on the analysis of the market environment investor psychology, it is truth that the participants of M&A make full use of market timing selected motives of M&A, and this theory is also known as market timing hypothesis. The market timing model points out that the irrational behavior of investors results the market value of the company far from its fundamental value. As M&A is no exception of this theory, this first hypothesis H1 is proposed as follows:

*H1: The worse operating performance enterprises tend to process the M & A activity in the bull market environment, whereas the better operating performance enterprises have no obvious preference of Bull-bear timing selection in M&A activities.*

As the loss profitable enterprises have the preference of selecting bull market situation to operate M&A activity, so some market manipulation activities such as giving illusive good news consciously or decreasing stock turnover rate to enhance the market believes before the announcement of M&A, plus the inherent the herding effect of investor behavior in the bull market itself causes the stock price fluctuate to a certain extent. As there is not good record of China's M&A, the investors or speculators are gradually savvy mature not to be easily captured by the external exhibition, but the irrational situation to form another collective subconscious that there is not any good effect of M&A, which results in a short few days' positive market reaction and then move rapidly to a negative market reaction. Given these analyzes, it is inferred that there must be the existence of a positive market reaction before and after the announcement of M&A in a bull market, and the duration of positive effect before announcement of M&A persists longer than that of post-announcement of M&A. As the loss-making enterprises prefer the bull market to be the operate timing of M&A, the market manipulation efforts are strong enough to obtain continued market acceptance prior to the M&A. On the other hand, the bear market environment's inherent market downturn plus unsatisfactory performance records will also appear a short few days of positive market effect, then the sustained negative market reaction will be lasting for a long time after declaration of M&A. Thus, this second hypothesis H2 is proposed as follows:

*H2: Regardless of the bull market or a bear market environment, the positive effect is shown before the declaration day; especially the market reaction attains its most point at the 1st day of post-declaration day, but the bear market shows negative reaction at the declaration day or few subsequent days, whereas the bull market continues to show positive reaction after a few days of declaration day of M&A, and then the market positive effect will be shown.*

In view of the corporate M&A activity's being likely to operate market manipulation to attract attention of market in both bull market situation and bear market situation, there is not any significant difference between bull and bear market, in the declaration day or pre-declaration day, but there is no need to continue to market manipulation activities to completed M&A enterprises after declaration day of M&A, and the bull market itself exists the actively status of stock market, so the hypothesis H3 can be speculated as follows:

*H3: There is not any significant difference of market reaction between bull and bear market in the declaration day or the pre-declaration day, but there are significant market reaction differences between bull and bear market in the most days of post-declaration day.*

Clearly, there are many kinds of the characteristic information of the two sides of M&A, some are of private type which can't be perceived whereas some are of public type which can be disclosed. These feature

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