Managerial Attitudes and Payout Policy: Asymmetric Information versus Overconfidence

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Abstract

We use a survey-based approach to provide new insight on managerial attitudes toward to market valuations— whether a corporate officer perceives her/his firm's stock price is undervalued or overvalued by the market. This allows us to distinguish payout increases caused by managerial asymmetric information and other reasons. We find that a firm with managerial attitude of undervaluation is more likely to increase payouts but the market does not react favorably. This suggests that managerial perceptions do not contain asymmetric information which managers know but investors do not know. Alternatively, our results suggest that corporate officers evaluate market valuations not only relative to their firms' stock prices in the past (past return) but also relative to industry peers (being below industrial median). Also managerial perceptions persist over time.

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