ABSTRACT

The effect of Caracteristic Issuer and Underwriter's prequalification to post Initial Public Offering Initial Return.

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Prevailing studies about post initial public offering (IPO) initial return are mostly conducted using conventional method. Financial variables are directly linked to post initial public offering initial return. As a result, the explainability of the model is poor because the majority of its financial variables are insignificant. This research is based on Agency Theory, in which the relationship between issuer and underwriter is a relationship between principal and agent. This study is further developed by assigning underwriter's prequalification variable as the intervening variable, and then subsequently linked it to post IPO initial return. This research is performed on Jakarta Stock Exchange (JSX) involving 108 companies whose IPO were issued between 1998-2002. The method used to analyze the relationship between the direct and indirect variables is Structral Equation Modeling (SEM). The important findings in this study is **first** the Price to Book Value (PBV) variable is a direct category signalling variable, i.e. its influence on post IPO initial return **Second**, this research proves that as an intervening variable, underwriter's prequalification is proven to have a positive role in reducing information assymetry by bridging and strengthening company's commitment to the market. The **third** finding of this research proves that the variable of Debt to Equity Ratio (DER), company age variable and company size variable are indirect signalling variables.The **fourth** finding in this study is on the other hand. the existence of underwriters having low reputation will provide an opportunity to gain high initial return to the investors. Its limitation is that underwriters with low reputation tend to create high fluctuation of stock rate of return. Underwriter's prequalification variable has significant negative effect on post IPO initial return..**Fifth**, the fifth finding in this study is that underwriters having higher qualification will be quicker in achieving equilibrium price towards its intrinsic value compared to underwriters with lower reputation.**Sixth**, the sixth finding in this research is a finding in prevailing theory. This study finds that *Pecking Order* theory does not apply to all situation. In the event where company's DER is relatively low, the higher the DER the higher the ROA. This study finds the existence of a cut off level where *Pecking Order Theory* no longer applies and instead is replaced by *Balancing Theory*. .The strategic implication of this research dictates the needs of good governance in stock planning, allocation, and control in an IPO

Key words::Information asymmetry, issuer characteristic, underwriter prequalification, initial return