Statistics in earnings release headlines can boost stocks, study finds

But boost is short-lived and often followed by even bigger dip

Companies that choose to insert financial figures into the headline of their earnings releases experience a three-day share price bump and then a sharper drop-off, according to recent academic research.

The research authors – Xuan Huang, associate professor in the department of finance at California State University Long Beach, Alex Nekrasov, assistant professor of accounting at the University of Illinois at Chicago, and Siew Hong Teoh, dean’s professor at the University of California, Irvine – examined more than 17,000 earnings releases spanning 11 years.

Almost one third (28 percent) of those releases included a statistic in the headline, most often relating to earnings or revenue. By adding one strong performance number to a headline, companies increased their results-linked boost by an extra third, on average, in the three-day period after the announcement. The inclusion of statistics is more impactful when it is communicated as a percentage gain, rather than in dollar terms.

The three-day boost is recorded only at companies that had positive earnings results to communicate and also exceeded or met analysts’ expectations.

The report authors conclude that ‘an initial favorable impression can lead investors to underweight contradictory information elsewhere in the report.’
But the illusion is short-lived, the researchers suggest: in the 60 days after the earnings statement is released, companies that included a positive statistic in their headline experienced a reversal of the three-day uptick. ‘Investors not only undo their initial reaction due to salient headlines but even revise their beliefs in the opposite direction in the subsequent period,’ the authors write.

The research goes even further, to suggest that companies that highlight results in the headline of a release are ‘motivated more by opportunism than by a desire to make disclosure generally more informative’.

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