Media Coverage and Investors' Attention to Earnings Announcements

Paper by
Joel Peress

Discussion by
Simon Gervais

Background

- Known phenomenon around earnings announcement (Bernard & Thomas, 1989).
  - Announcement $\gg$ consensus forecast $\longrightarrow$ Ex post price drifts $\uparrow$.
  - Announcement $\ll$ consensus forecast $\longrightarrow$ Ex post price drifts $\downarrow$.

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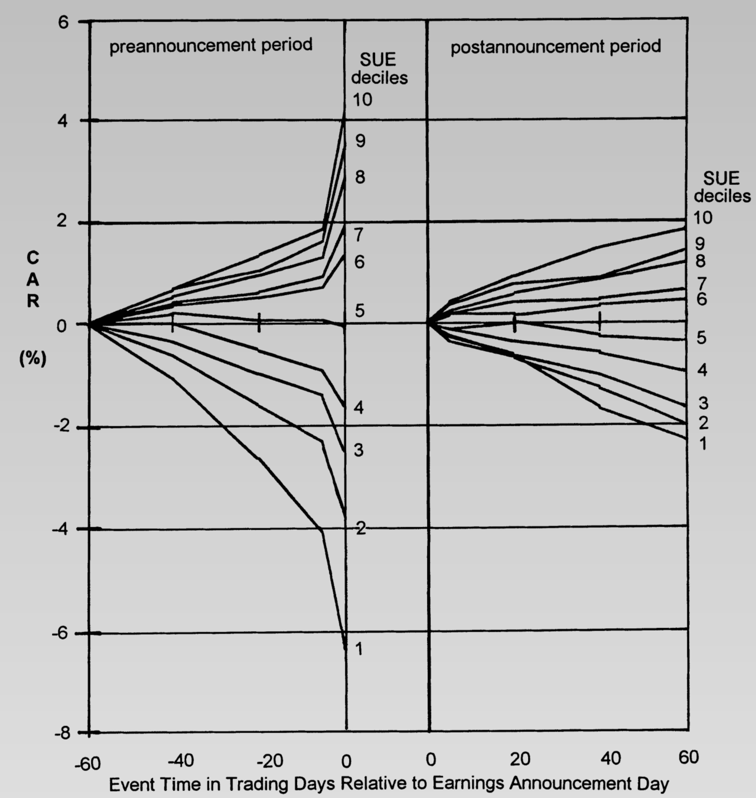

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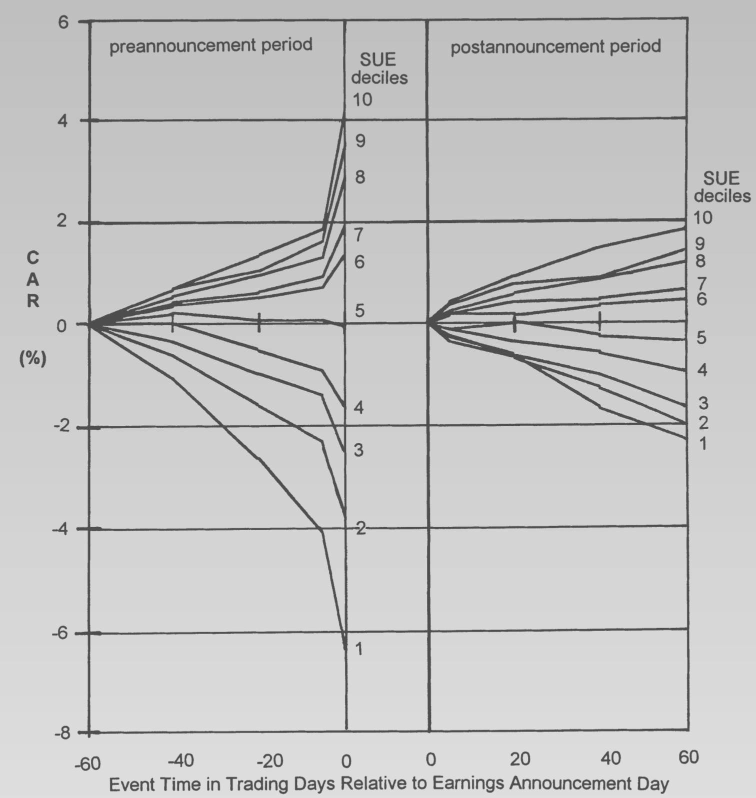

This Paper

- Main idea.
  - News coverage $\uparrow \longrightarrow$ Investor attention $\uparrow$.
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  - for positive announcement surprises;
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  - Coverage dummy = 1 $\Leftrightarrow$ WSJ article on announcement day (day 0) or the day after (day 1).
  - Earnings surprise: announced earnings $-$ median analyst forecast, normalized, extreme deciles (1 and 10).

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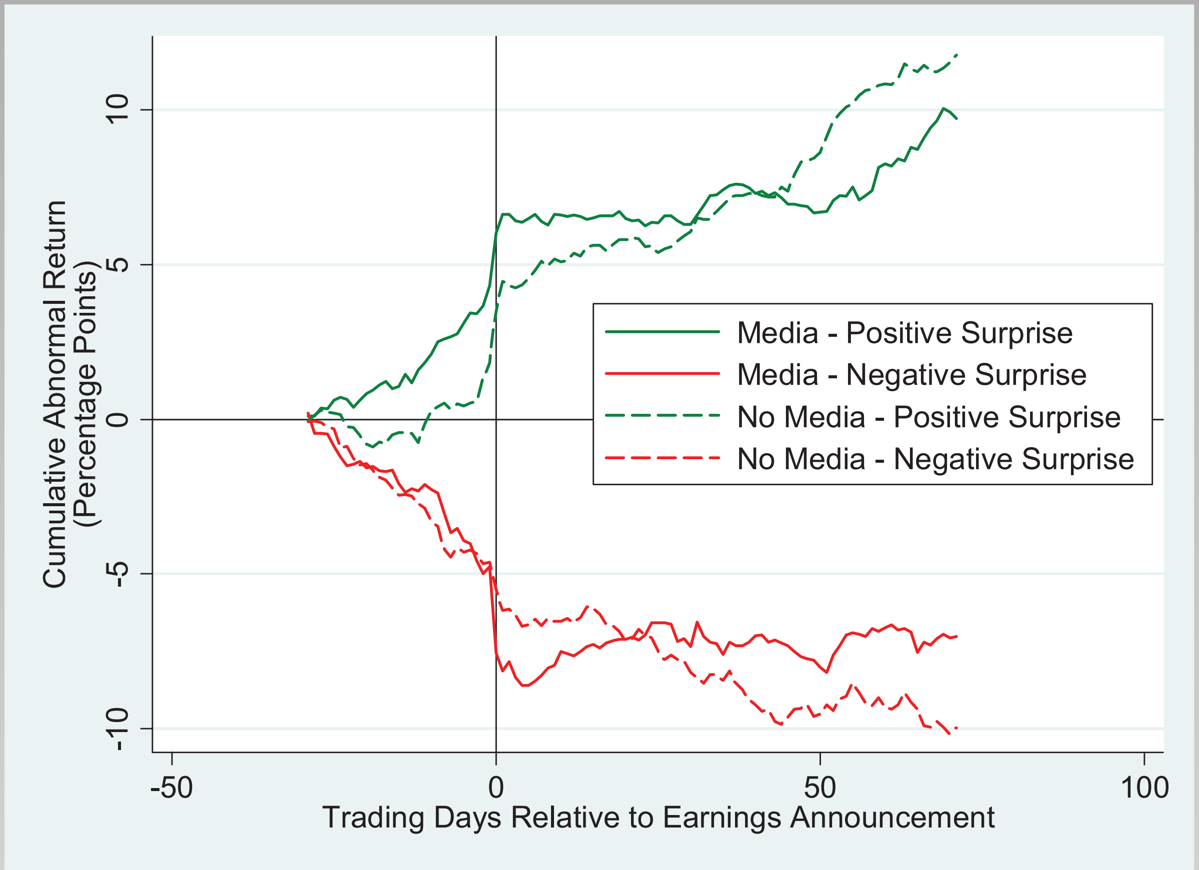
Results



- Coverage vs. no coverage.
  - No/smaller post-announcement drift with coverage.
  - Larger adjustment pre-announcement for positive surprise.
  - Larger adjustment at announcement for negative surprise.

Timing Issues

- Negative surprises: Coverage dummy = 1, large volume, and large negative return are all measured over days 0,1.
  - Which came first? Is the coverage a reaction to these quantities?
  - Latent variable?
  - Suggestion for endogeneity problems (not just this one).
    - Compare $\frac{\sum \text{MEDIA}_1}{\sum \text{MEDIA}_0}$ across surprise deciles.
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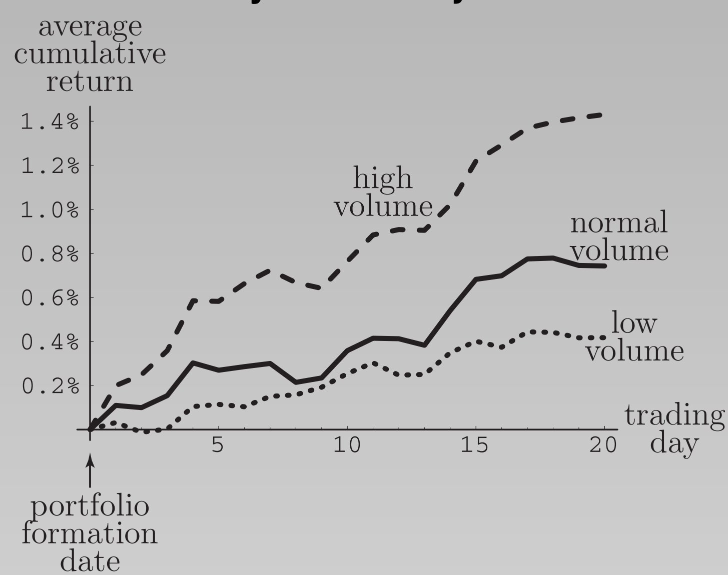
  - Why excess returns? Why slow adjustment?



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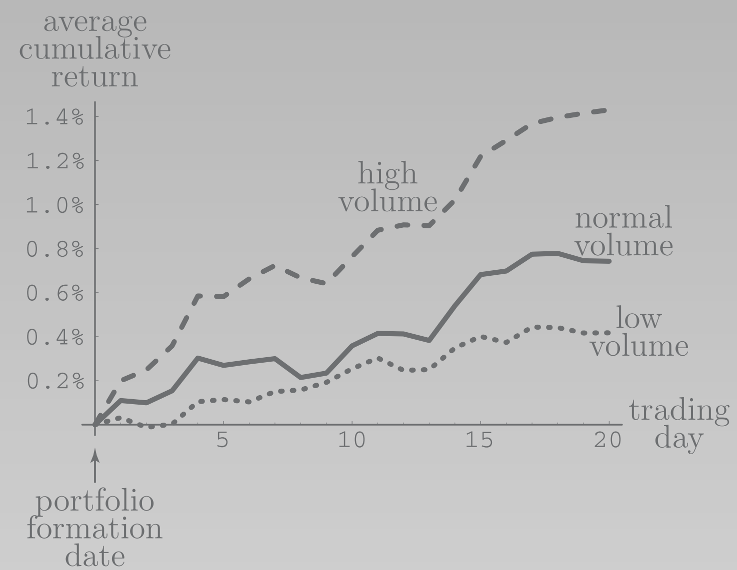

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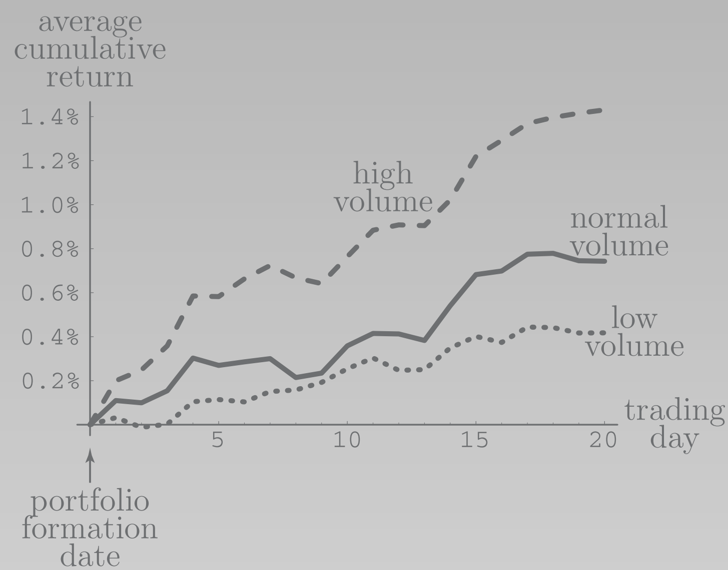

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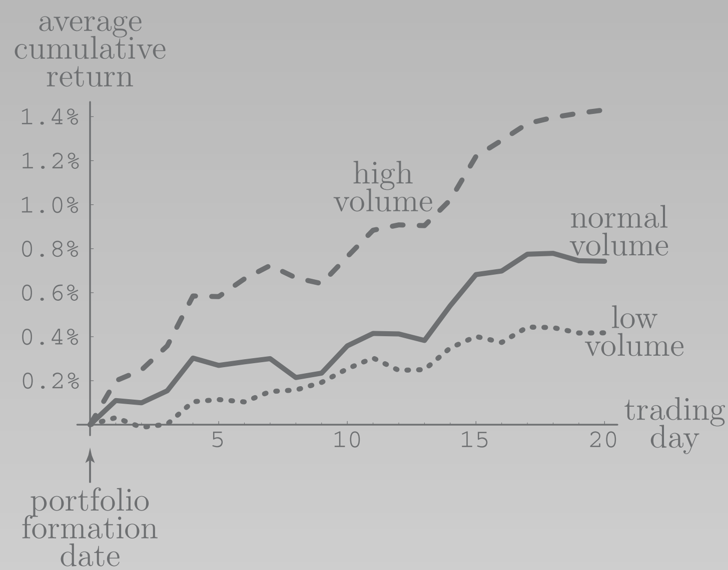

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