

# Does Volatility Improve UK Earnings Forecasts?

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**Abstract:** We investigate the relation between UK accounting earnings volatility and the level of future earnings in a risk management framework. Our unique sample comprises some 11,107 firm-year observations for 1,548 non-financial firms over the 1980-2003 period. The findings confirm the established in-sample result of an inverse volatility-earnings relation. This is more pronounced as the current level of earnings and the firm's growth opportunities increase. However, we find that earnings are mainly explained by lagged earnings and there is no improvement in out-of-sample forecast accuracy when volatility is added as a regressor.

**Keywords:** Earnings volatility, earnings predictability, risk management theory

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