

POST-EARNINGS ANNOUNCEMENT DRIFT: SPANISH EVIDENCE

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ABSTRACT

This paper analyzes whether earnings announcements in the Spanish stock market are followed in subsequent months by a return drift in the same direction as the earnings surprise. To do this study we use a sample of quarterly earnings for the period between January 1994 – December 2003. Two alternative earnings surprise measures have been used based on earnings time series and analysts' forecast, and both provide a strong post-earnings announcement drift. Moreover, these two measures have marginal explanatory power when they are controlled for each other. In order to look for an explanation to this anomaly we make several adjustments in addition to the CAPM: (i) the Fama-French (1993) three-factor model, (ii) control portfolios by size and book-to-market ratio, and (iii) control for the Jegadeesh and Titman (1993) momentum effect. Moreover, besides these unconditional adjustments, following the recent financial literature on asset pricing we have also studied whether this phenomenon can be explained through conditional models. In this way, we allow risks and returns time varying depending on the economic cycle. However, the Spanish post-earnings announcement drift seems to be robust to all this adjustments. These results make things more difficult for the market efficiency hypothesis, and give some support to the infra-reaction assumption.

Keywords: post-earnings announcement drift, conditional models, under-reaction.

JEL classification: G14, G11, M41