

## Quarterly Results and Share Prices : What Happens on the Date of Earnings Announcement ?

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### Abstract

This paper addresses the question of association between quarterly results (namely, total income, net profit and EPS) and share price (on the date of earnings announcement). Based on a total of thirty companies of S&P BSE SENSEX during the first quarter of 2011-12 to fourth quarter of 2017-2018, and using Pedroni Panel Cointegration Test, the paper has come out with three main results. First, total income and net profit are not significantly correlated with share price (on the date of earnings announcement) with regards to S&P BSE SENSEX. In contrast, there is low positive correlation between EPS and share price. Second, the panel cointegration test confirms the existence of a long-run cointegration relation between three numbers of quarterly results (Total income, net profit and EPS) and share prices on the date of earnings announcement across the companies. Third, the investors and other players not to make investment decision on the basis of total income, net profit and EPS on the date of earnings announcement.

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### I. Introduction

EVERY INVESTOR IS interested to know the likely dividend and likely appreciation in share prices in future meaning that the investor is interested in 'intrinsic value'. Dividend and earnings announcements are the two most important financial information used by the investors for decisions regarding buying and selling of any firm's share (Lonie and Abeyratna, 1996). We have not considered the dividend announcement. This has been widely accepted that the behavior of share price is a very complex phenomenon in the field of financial research. The future prices cannot be predicted exactly. One of the way to come to predicted share price is to look at the past data. Fundamental analysis is all about the 'intrinsic value' of securities. The share prices are influenced by the performance of the economy as a whole, industry and company<sup>1</sup>. This paper is restricted to analyze company specific factors i.e. the company analysis. Since this research is all

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between EPS and share price. Secondly, the results of panel cointegration test confirms the existence of a long-run cointegration relation between three numbers of quarterly results (Total income, net profit and EPS) and share prices on the date of earnings announcement across the companies.

Even though the long term association of total income, net profit and EPS is seen with the share price on the date of earnings announcement in the selected thirty companies of S&P BSE SENSEX, the three numbers of quarterly results i.e. total income, net profit and EPS do not hold significant correlation with share price on the date of earnings announcement. Therefore, it is suggested to investors and other players to not to make investment decision on the basis of total income, net profit and EPS on the date of earnings announcement.

These results imply that the investors can improve their return on the basis of the interpretation of this research. It is agreed that the results of this paper are not exhaustive to take investment decision in the uncertain stock market, but the model developed in this paper is expected to be practical and can be used as a consideration by investors and interested parties in an undeniable manner.

### Notes

- 1 The economic analysis and industry analysis are not defined here. These are widely elaborated in books and on websites.
- 2 Short term is defined as per the directive given in Indian Income Tax Act for the purpose of Capital Gain Tax.
- 3 This research is conducted after the post-recession period i.e. 2008. The high volatility is observed from 2008-2010. Therefore, we decided to avoid the three accounting years (2008-09 to 2010-11) from this research.
- 4 [www.bseindia.com/markets/equity/EQReports/StockPrcHistori.aspx?expandable=7&flag=0](http://www.bseindia.com/markets/equity/EQReports/StockPrcHistori.aspx?expandable=7&flag=0)

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