EQUITIES

The Earnings Announcement Premium and Trading Volume

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On average, stock prices rise around scheduled earnings announcement dates. We show that this earnings announcement premium is large, robust and strongly related to the surge in volume around announcement dates.

Stocks with high past announcement-period volume earn the highest announcement premium, suggesting some common underlying cause for both volume and the premium. We show that high-premium stocks experience the highest levels of imputed small-investor buying, suggesting that the premium is driven by buying by small investors when the announcement catches their attention.

In this paper, we provide evidence on the magnitude and robustness of the earnings announcement premium. We find monthly strategies earning excess returns of between 7% and 18% per year, with Sharpe ratios larger than other popular anomalies. The premium is strong in large capitalization stocks, is not only confined to the three-day window around the announcement, and appears consistently since 1927.

We also provide an explanation for the premium. We find that stocks with high volume around earnings announcements have subsequently both high premiums and high imputed buying by individual investors. This finding suggests that for some stocks, prices are pushed higher around announcement dates by buying pressure from individuals.

We show that the strategy of buying every stock expected to announce over the subsequent month and shorting every stock not expected to announce yields a return of over 60 basis points per month. We show that announcement premium is quantitatively substantial, especially among large-cap securities, and lasts about 20 days.

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