Does a media headline have a price impact over and above economic fundamentals?

The objective of the study is to examine whether “old earnings news” that has previously been reported is given the appearance of being new news when reported in the Wall Street Journal (WSJ) and the New York Times (NYT) and receives a further price reaction. We approach this by examining whether media coverage by the WSJ and NYT of earnings announcements gives rise to an increase in post-earnings announcement drift. It is well documented that quarterly earnings are positively autocorrelated. Therefore a component of current quarter earnings when reported is news that was reported at the end of the prior quarter and thus is old news. To examine our hypothesis, using a sample of media observations from 1985 to 2005, we first predict and find that those firms that receive a media headline in the WSJ or the New York Times have a significantly greater share price reaction to current quarter’s earnings than those firms whose earnings announcements do not receive media coverage. We then find one explanation for this result is that for those firms that receive media coverage the three-day reaction at the time of the announcement of current earnings to past quarter’s earnings is greater for those firms that receive media coverage. We interpret this new price reaction as representing a further reaction to information that was reported approximately three months ago. Our results suggests that media coverage of earnings announcements by the WSJ and the NYT, two of the capital market’s most important information intermediaries, acts to increase post-earnings announcement drift.

Associate Professor Matthew Pinnuck teaches financial accounting in both undergraduate and postgraduate courses. Matt’s research interest is in information economics in the fields of both financial accounting and finance and his main teaching areas are in financial accounting and security valuation. Matt worked for several years in the audit division of KPMG before completing a PhD at the University of Melbourne.