IMPACT OF THE EARNINGS' GUIDANCE PROVIDED BY PUBLIC COMPANIES ON THEIR MARKET CAPITALIZATION AND SHARE PRICE VOLATILITY IN THE RUSSIAN STOCK MARKET

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Abstract

Most foreign studies find that the forecasts of financial performance of the company by its management have effect on return on its hares and theirs volatility, and that market reaction on the negative news is stronger. In Russia, management forecasts are typically publicized in the course of the conference calls made in the same days when the financial results are published. This practice makes the analysis of the short-term influence of the management forecasts on shares quotes impossible. This paper analyses the impact of corporate earnings guidance on the long-term return on shares and share price volatility as well as the impact of earnings surprises on the long-term shares' return. The estimate was made based on the panel data for a sample of 27 Russian public metal mining companies and fertilizers' producers for the period of за 2006–2011. Our study reveals no link between earnings guidance and return on shares as well as between earnings surprises and return on shares. At the same times share prices of companies which provide earnings guidance are more volatile than those which do not. Thus, an increase in transparency does not result in increased return on shares as compared to less transparent companies, but it increases share price volatility and risk associated with investments in such shares. This effect may mean that investors do not take into account the management forecasts of the Russian public companies. Those forecasts may be too inaccurate due to high volatility of business environment, absence of regulation of corporate forecasts' disclosure and managers's interest in overstating the forecasts.

Key words: disclosure, earnings guidance, stop guidance, earnings surprises, volatility

JEL: G1

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