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Market Reaction to Multiple Contemporaneous Earnings Signals: Earnings Announcements and Future Earnings Guidance

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Abstract. We examine market reactions to contemporaneous announcements of current earnings and future earnings guidance for evidence on how investors trade off relevance and reliability. Current earnings are more reliable than future earnings guidance, but future earnings guidance may be more relevant for predicting future performance. We find that current earnings are more strongly associated with announcement-period returns than concurrently disclosed future earnings guidance, consistent with investors' relative preference for reliability. We find similar return reactions to stand-alone earnings and to earnings released with guidance. In contrast, return reactions are lower for guidance announced simultaneously with current earnings than for stand-alone guidance.

Keywords: multiple contemporaneous earnings signals, future earnings guidance, earnings announcements, relevance, reliability, market reaction

JEL classification: D84, G14, M41

Investors must often trade off relevance and reliability when responding to company disclosures. This trade-off has long been recognized in accounting (for example, in the FASBs Statement of Accounting Concepts No. 2), and has become more important in recent years because firms increasingly provide multiple earnings signals with different degrees of relevance and reliability.[1] We focus on firms that simultaneously announce management earnings forecasts (future earnings guidance) and current earnings. These disclosures may change investors' beliefs about the firm's future prospects and thereby affect returns around the announcements. The effect of the disclosures on security returns is likely to depend on investors' perceptions of the signals' relative relevance and reliability. In this study, we examine market reactions to contemporaneous current earnings announcements and future

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