

DO INVESTORS STILL “FIXATE” ON EARNINGS?

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ABSTRACT

This paper tries to replicate Sloan’s paper (1996). In other words, this paper investigates whether stock price reflect information about future earnings contained in the accruals and cash flow components of current earnings. But, this paper has two extensions from Sloan’s paper. First of all, data in the different period (1988—2004) are used. Since investment environment changed gradually since 1990’s, whether investors still “fixate” on earnings is at issue. In addition, this paper uses quarterly earnings instead of annually earnings to test the hypothesis because quarterly earnings correspond to quarterly earnings announcement dates. The results in general support the Sloan’s findings, that is, investors still “fixate” on earnings, failing to reflect fully information contained in the accrual and cash flow components of current earnings. However, this paper challenges the use of Jensen alpha as an adjustment for the normal return.