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IWH Research Seminar in Economics

Monday, July 9, 2018, 2.15pm – 3.45pm, conference room, Leipziger Straße 100

Limited Attention to Detail in Financial Markets

Professor Dr Zacharias Sautner, Frankfurt School of Finance & Management

(togehter with Professor Henrik Cronqvist, University of Miami and Dr Tomislav Ladika, University of Amsterdam)

We show that analyst valuations became less accurate and more pessimistic following a large drop in accounting earnings that did not reveal new information about firm value. FAS 123-R required firms to begin expensing option compensation in income statements, instead of disclosing costs only in footnotes. We exploit that FAS 123-R's compliance dates were staggered quasi-randomly based on firms' fiscal year ends. Firms that expensed options were more likely to miss earnings forecast, relative to firms that did not yet expense options. Analysts also more often revised down these firms' recommendations, resulting in large market value drops. Our results are consistent with the limited attention hypothesis: analysts and investors overvalue firms when value-relevant information is less accessible.

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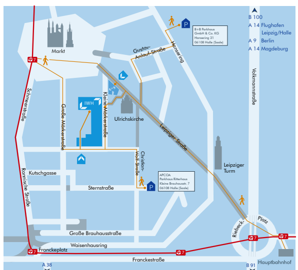

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