



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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earnings guidance for evidence on investors' preference for relevance versus reliability of earnings information.

Investors generally value securities based on their expectation of a firm's future performance. Therefore, disclosures about future earnings, such as future earnings guidance, should be more relevant to investors than information on past periods' earnings, all else equal. However, investors may respond more strongly to past earnings information than to future earnings guidance because past earnings are more reliable. Specifically, current earnings are largely based on past transactions and are audited or reviewed by independent auditors. In contrast, future earnings guidance is based on possible future transactions, is discretionary, and is not audited or reviewed by independent auditors. These differences make current earnings more reliable than future earnings guidance.² We examine whether investors respond more strongly to current earnings information or to future earnings guidance when firms provide both simultaneously. Our results are relevant to the ongoing debate on disclosures about prospective information.

We identify a sample of firms providing simultaneous earnings announcements and future earnings guidance. We first demonstrate that future earnings guidance is more relevant than current earnings for predicting future earnings; that is, earnings guidance is more strongly associated with future earnings than is current earnings. Next, we examine the association of current earnings and future earnings guidance with announcement-period returns. Our descriptive statistics suggest that firms that provide guidance simultaneously with earnings announcements have more favorable future earnings guidance, are larger, and have higher book-to-market ratios than firms that provide stand-alone guidance. We therefore use the Heckman (1979) procedure to control for self-selection bias in the returns model. We find that earnings announcements and future earnings guidance both have incremental information content for announcement-period security returns. However, current earnings news is more strongly associated with stock returns than is future earnings guidance. Thus investors appear to emphasize the reliability of current earnings over the relevance of future earnings guidance when responding to simultaneously announced current earnings and future earnings guidance.³

We further examine investors' preference for relevance versus reliability by investigating how the interaction between current earnings and future earnings news (i.e., their consistency) affects investors' response to the two disclosures. Specifically, we compare market reactions to consistent current earnings and future earnings news (i.e., positive news in both current earnings and future earnings guidance, or negative news in both) and to contradictory current earnings and future earnings news (i.e., positive news in either current earnings or future earnings guidance and negative news in the other).⁴ Our analysis is related to prior research on consistent and contradictory signals. Ely and Mande (1996) examine analysts' forecast revisions following earnings and dividend announcements. They find that analysts' forecast revisions depend more strongly on whether the earnings and dividend signals are consistent or contradictory than on the magnitudes of the unexpected earnings and unexpected dividend news. Ely and Mande's findings further motivate our examination of the effects of the consistency between current earnings and future earnings

guidance on investors' response to the two disclosures. We find that current earnings news is more strongly associated with returns than is future earnings guidance regardless of whether the signals are consistent or contradictory.

Our last research question is whether market reactions to current earnings and future earnings guidance are different for concurrently disclosed and stand-alone announcements. We find similar return responses to stand-alone earnings and earnings disclosed simultaneously with guidance, suggesting that future earnings guidance does not alter investors' interpretations of the news in earnings announcements. In contrast, we find that investors respond more strongly to stand-alone future earnings guidance than to guidance released simultaneously with current earnings. This suggests that when investors receive multiple contemporaneous earnings signals, they focus primarily on the less relevant but more reliable current earnings and pay less attention to the more relevant but less reliable future earnings guidance, thereby weakening the response to future earnings guidance.⁵

Our study makes several contributions. We compare return responses to contemporaneous historical earnings and forward-looking disclosures, and thereby provide evidence on the relative importance of reliability and relevance to investors. Numerous studies examine the information content of either earnings announcements or future earnings guidance, but do not investigate the relative information content of these two types of announcements. Furthermore, those studies' results cannot be used to infer the relative market reactions to earnings and future earnings guidance because uncontrolled events could cause differences in measured return responses to the two types of disclosures. By focusing on firms that disclose current earnings and guidance simultaneously, we are able to compare investor responses to the two disclosures in a setting with natural controls for other events. Our finding that investors respond more strongly to current earnings news than to future earnings guidance suggests that investors attach greater importance to reliability than to relevance of simultaneously announced earnings information. This evidence is of interest to accounting standard setters who must evaluate the relevance and reliability of accounting disclosures. Most FASB standards require disclosure of historical as opposed to forward-looking information, suggesting an emphasis on reliability over relevance. The FASB's focus on reliability appears to be consistent with investors' preferences, as evidenced by the results of our study.

The paper is organized as follows. We discuss prior research in the next section, and describe sample selection in Section 2. In Section 3, we discuss research design and present our results. We discuss additional analysis in Section 4 and conclude with Section 5.

1. Prior Research

Extensive empirical evidence suggests that earnings announcements have information content. Specifically, earnings announcements affect both stock prices and trading volume (e.g., Ball and Brown, 1968; Beaver, 1968; Beaver et al., 1979). Most prior studies assume that the earnings announcement is the only earnings signal

provided to investors on the earnings announcement date. Hoskin et al. (1986) examine a broad range of concurrent information disclosed in the earnings announcement press release. They find that concurrent disclosures such as earnings components, dividend news, and management comments about future prospects have incremental information content beyond reported earnings. Francis et al. (2002) document increased concurrent information in press releases accompanying earnings announcements from 1980 to 1999, and find that concurrent disclosures, particularly detailed income statements, have incremental information content. Hoskin et al. (1986) and Francis et al. (2002) examine the information content of *qualitative* disclosures about future operating items and firm prospects, but do not examine the effects of concurrent future earnings guidance provided by management. Kohlbeck and Magilke (2002) document incremental information content of conference calls held concurrently with earnings announcements. They focus on the effect of holding conference calls and do not examine the specific information disclosed in the conference calls. Thus while conference calls to announce earnings could include earnings guidance, prior research does not examine the effects of simultaneously released earnings announcements and future earnings guidance on security returns.

Another stream of literature finds that future earnings guidance is associated with security returns, trading volume, and analyst earnings forecasts (e.g., Patell, 1976; Penman, 1980; Ajinkya and Gift, 1984; Waymire, 1984; Jennings, 1987; Hutton et al., 2003; Atiase et al., 2004). The evidence is mostly based on future earnings guidance provided separately from earnings announcements and these studies do not examine the effects of earnings announcements.⁶

In sum, prior research establishes that stand-alone earnings and future earnings guidance announcements have information content. This study is the first to examine the *relative* information content of the two earnings signals when they are disclosed simultaneously. In addition, simultaneous disclosures of current earnings and guidance allow us to examine investors' preference for relevance and reliability, an issue that has received little attention in the literature. Finally, although an extensive literature examines market reactions to earnings announcements or future earnings guidance, prior studies do not examine the effect of each type of earnings news on price reactions to the other type of earnings news.

2. Sample and Data Collection

Our sample includes firms with management earnings guidance in the *First Call/Thomson Financial Historical Database* (hereafter *Thomson Financial*) for the years 1994–2003. We first identify firms that provide guidance for next-quarter earnings on their quarterly earnings announcement date (concurrent-announcement firms). We then require that these firms have (1) actual earnings per share (EPS) for the current quarter as well as for the four previous quarters; (2) management earnings guidance for quarter $t + 1$ available on *Thomson Financial*; (3) at least one individual analyst forecast of quarters t and $t + 1$ earnings made within 60 days prior to the quarter- t earnings announcement available on *Thomson Financial*; (4) price per share, book

value of stockholders' equity, and number of shares outstanding at the beginning of quarter t available on the *Quarterly Compustat* database; and (5) daily returns on the *CRSP Daily Stock* database. We require analyst forecasts to compute news in current earnings (actual earnings minus analysts' consensus forecast) and news in future earnings guidance (management forecast minus analysts' consensus forecast). We include future earnings guidance provided as point or range estimates, and exclude other forms of management earnings estimates.⁷ When management forecasts are provided as a range, we use the mid-point of the range as the forecast and compute the news in future earnings guidance as the difference between the mid-point and analysts' consensus forecast.⁸

The above criteria yield 3329 firm-quarter observations for the period 1994–2003 (the *initial sample*). To ensure that our inferences are not due to within-day differences in the timing of earnings and future-guidance announcements, we also require that both the earnings announcement and guidance appear in the same press release. We hand-collect press releases from the Factiva database in two phases.⁹ We first collect press releases for observations in the initial sample for the period 1994–2000. There are 393 firm-quarters for this period, 233 of which have both current earnings and guidance disclosed in the same press release. In the second phase, we collect press releases for the period 2001–2003. There are 2936 firm-quarters for this period in the initial sample.¹⁰ We randomly select 1000 firm-quarter observations for our data collection, and find 811 firm-quarter observations with both current earnings and guidance disclosed in the same press release. Thus, our final sample consists of 1044 firm-quarters (627 firms) of earnings and guidance announcements in the same press release for the years 1995–2003. The current earnings number precedes the future earnings guidance number in all of the press releases.¹¹ We report results for the final sample below.

To compare return responses to concurrently announced versus stand-alone current earnings and guidance, we next match our concurrent-announcement firms with a control sample of firms that announce current-quarter earnings and one-quarter-ahead earnings guidance on different days. In addition to criteria (1)–(5) above, we require that next-quarter earnings guidance be issued at least 2 days after the current-quarter earnings announcement date and before the end of the following quarter (i.e., before the end of the quarter for which the guidance is issued).¹² If a firm has multiple guidance announcements during this period, we select the first guidance issued after the quarter t earnings announcement date. There are 2598 firm-quarters (1412 firms) for the years 1995–2003 that meet these criteria.¹³

In Table 1 Panel A, we report summary statistics for announcement-period abnormal returns (CAR), news in current earnings (UE), news in future earnings guidance (FEG), firm size (SIZE), book-to-market ratio (BM), and return volatility (RETVOL).¹⁴ We also report statistics for subsamples of consistent and contradictory news. For the concurrent sample, 580 announcements (56% of the sample) contain consistent news and 464 announcements (44%) contain contradictory news.¹⁵ Untabulated statistics show that CAR and FEG are significantly higher for the consistent news sample than for the contradictory news sample, while UE, SIZE, BM, and RETVOL do not differ significantly between the two samples.

Table 1. Descriptive statistics and correlation matrix.

	Mean	S.D.	25%	50%	75%
<i>Panel A: Descriptive Statistics</i>					
A. Entire Concurrent Announcement Sample ($N = 1044$)					
CAR	0.002	0.102	-0.043	0.006	0.056
UE	0.0009	0.0043	0.0000	0.0004	0.0014
FEG	-0.0003	0.0066	-0.0017	-0.0002	0.0009
SIZE (millions)	6840.23	23723.52	436.28	1270.00	4643.24
BM	0.534	0.391	0.264	0.434	0.682
RETVOL	0.036	0.017	0.024	0.032	0.044
A.1 Consistent Earnings Signals ($N = 580$)					
CAR	0.012	0.101	-0.038	0.011	0.064
UE	0.0008	0.0053	0.0000	0.0004	0.0016
FEG	0.0012	0.0076	-0.0002	0.0004	0.0023
SIZE (millions)	6555.13	22273.61	446.41	1222.04	4921.62
BM	0.521	0.387	0.259	0.423	0.681
RETVOL	0.037	0.017	0.024	0.032	0.044
A.2 Contradictory Earnings Signals ($N = 464$)					
CAR	-0.010	0.102	-0.048	-0.001	0.043
UE	0.0009	0.0026	0.0000	0.0004	0.0013
FEG	-0.0021	0.0046	-0.0027	-0.0010	-0.0003
SIZE (millions)	7196.61	25439.97	394.63	1420.81	4519.09
BM	0.550	0.397	0.273	0.456	0.687
RETVOL	0.035	0.016	0.024	0.030	0.043
B. Entire Stand-alone Announcement Sample ($N = 2598$)					
CAR	-0.059	0.168	-0.140	-0.034	0.036
UE	0.0007	0.0038	0.0000	0.0003	0.0010
FEG	-0.0018	0.0115	-0.0049	-0.0008	0.0004
SIZE (millions)	6579.49	23277.28	382.61	1094.62	3682.25
BM	0.488	0.363	0.242	0.402	0.634
RETVOL	0.034	0.017	0.022	0.030	0.042
B.1 Consistent Earnings Signals ($N = 1270$)					
CAR	-0.033	0.159	-0.106	-0.018	0.053
UE	0.0005	0.0047	-0.0004	0.0000	0.0009
FEG	0.0011	0.0122	-0.0028	0.0001	0.0037
SIZE (millions)	7079.35	25127.66	382.61	1151.17	3858.13
BM	0.464	0.350	0.230	0.379	0.592
RETVOL	0.034	0.016	0.022	0.030	0.042
B.2 Contradictory Earnings Signals ($N = 1328$)					
CAR	-0.084	0.173	-0.166	-0.054	0.018
UE	0.0009	0.0027	0.0000	0.0004	0.0012
FEG	-0.0045	0.0101	-0.0065	-0.0024	-0.0003
SIZE (millions)	6101.46	21356.96	382.80	1041.77	3513.54
BM	0.511	0.374	0.251	0.427	0.674
RETVOL	0.035	0.017	0.023	0.031	0.043

Table 1. Continued.

	Concurrent Announcement Sample N = 1044	Stand-Alone Announcement Sample N = 2598	Difference Mean	t-Statistic
<i>Panel B: Concurrent Announcement versus Stand-Alone Announcement Sample</i>				
CAR	0.002	-0.059	0.061***	10.93
UE	0.0009	0.0007	0.0002	0.98
FEG	-0.0003	-0.0018	0.0015***	4.02
SIZE (log)	7.274	7.142	0.132**	2.14
BM	0.534	0.488	0.046***	3.38
RETVOL	0.036	0.034	0.002**	2.52
	Concurrent Announcement Sample Number of Observations (%)	Stand-alone Announcement Sample Number of Observations (%)	Chi-square (Significance level)	
<i>Panel C: News Types</i>				
Consistent News	580 (56)	1270 (49)	13.26 (< 0.001)	
Contradictory News	464 (44)	1328 (51)		
Total	1044 (100)	2598 (100)		
UE ≥ 0 (good news)	842 (81)	1923 (74)	17.92 (< 0.001)	
UE < 0 (bad news)	202 (19)	675 (26)		
Total	1044 (100)	2598 (100)		
FEG ≥ 0 (good news)	478 (46)	929 (36)	31.58 (< 0.001)	
FEG < 0 (bad news)	566 (54)	1669 (64)		
Total	1044 (100)	2598 (100)		
	CAR	UE	FEG	
<i>Panel D: Correlation Coefficients-Pearson (Spearman) correlations are reported below (above) the diagonal</i>				
Concurrent Announcement Sample				
CAR		0.291***	0.272***	
UE	0.166***		0.233***	
FEG	0.189***	0.227***		
Stand-alone Announcement Sample				
CAR		0.179***	0.415***	
UE	0.126***		0.121***	
FEG	0.269***	0.121***		

*, **, *** indicate significance at less than the 0.10, 0.05, and 0.01 level (two-tailed), respectively.

Variable definitions:
 CAR = for the concurrent announcement sample: three-day cumulative abnormal returns around earnings announcement date; for the stand-alone announcement sample: three-day cumulative abnormal returns around earnings announcement date plus three-day cumulative abnormal returns around guidance announcement date;
 UE = unexpected earnings for quarter *t*, calculated as quarter *t*'s actual EPS minus the average of individual analysts' EPS forecasts of quarter *t* made within 60 days prior to quarter *t*'s earnings announcement date, deflated by the stock price at the beginning of quarter *t*;
 FEG = earnings news in future earnings guidance for quarter *t* + 1, calculated as management EPS estimate of quarter *t* + 1 minus the average of individual analysts' EPS forecasts of quarter *t* + 1 made within 60 days prior to guidance announcement date, deflated by the stock price at the beginning of quarter *t*;
 SIZE = logarithm of market value at the beginning of quarter *t*;
 BM = book-to-market ratio at the beginning of quarter *t*;
 RETVOL = standard deviation of daily stock returns.

Table 1 Panel B compares the concurrent and stand-alone samples. Relative to firms that issue stand-alone guidance, firms that issue guidance simultaneously with earnings have more favorable guidance news, are larger, and have higher book-to-market ratios and return volatility. Table 1 Panel C reports the composition of news types for the concurrent and stand-alone sample. The concurrent sample has more consistent news (56% of the sample) than the stand-alone sample (49%). Concurrent announcements are more likely to contain good news for both current earnings and guidance than are stand-alone announcements. Eighty-one percent of the firms in the concurrent sample report good news in current earnings, compared with 74% in the stand-alone sample. Forty-six percent of the firms in the concurrent sample report good news in future guidance, compared with 36% in the stand-alone sample. This difference in distributions is significant at better than the 0.001 level. The results in Panels B and C suggest possible self selection by firms providing concurrent versus stand-alone earnings and guidance announcements. As we explain in the next section, we use the Heckman (1979) procedure to correct for possible self-selection bias in our regression analysis.

Table 1 Panel D shows that CAR is significantly positively correlated with UE and FEG at better than the 1% level. For the concurrent sample, the Pearson correlation coefficients are 0.166 for CAR and UE, and 0.189 for CAR and FEG. The Spearman correlation coefficients are 0.291 for CAR and UE, and 0.272 for CAR and FEG.

3. Research Design and Results

3.1. *Relative Relevance of Current Earnings and Future Earnings Guidance for Predicting Future Earnings*

Our primary research objective is to compare return responses to current earnings and future guidance. Current earnings are more reliable than future earnings guidance, but future earnings guidance may be more relevant for predicting future performance. We infer investors' preference for relevance versus reliability by comparing return responses to current earnings and future earnings guidance. To validate our conjecture that future earnings guidance is more relevant for predicting future performance than current earnings, we compare the association of current earnings and simultaneously announced future earnings guidance with future earnings. The tests are based on the following models:

$$\text{EARN}_{i,t+1} = a_0 + a_1\text{EARN}_{i,t} + a_2\text{EARN}_{i,t-1} + a_3\text{EARN}_{i,t-2} + a_4\text{EARN}_{i,t-3} + a_5\text{EARN}_{i,t-4} + \varepsilon_{i,t}, \quad (1)$$

$$\text{EARN}_{i,t+1} = a_0 + a_6\text{GUIDANCE}_{i,t+1} + \varepsilon_{i,t}, \quad (2)$$

$$\text{EARN}_{i,t+1} = a_0 + a_1\text{EARN}_{i,t} + a_2\text{EARN}_{i,t-1} + a_3\text{EARN}_{i,t-2} + a_4\text{EARN}_{i,t-3} + a_5\text{EARN}_{i,t-4} + a_6\text{GUIDANCE}_{i,t+1} + \varepsilon_{i,t}, \quad (3)$$

where $EARN_{i,t+1}$ is firm i 's one-quarter-ahead actual earnings per share (EPS); $EARN_{i,t}$ is firm i 's actual EPS in quarter t ; $EARN_{i,t-j}$ is firm i 's actual EPS j quarters before quarter t , $j = 1-4$, for historical earnings extending from the preceding quarter to the same quarter of the preceding fiscal year; $GUIDANCE_{i,t+1}$ = firm i 's guidance for one-quarter-ahead EPS.

To evaluate the predictive ability of current earnings and earnings guidance, we first compare the explanatory power of models (1) and (2) using the Vuong test (Vuong, 1989). $GUIDANCE_{i,t+1}$ is the only explanatory variable in model (2), but we include five historical earnings terms (current quarter's actual earnings, $EARN_{i,t}$, and earnings from the four previous quarters) in model (1) to capture predictive information in the time series of quarterly earnings. We also compare the $EARN_{i,t}$ and $GUIDANCE_{i,t+1}$ coefficients in model (3). Finally, we test for differences in prediction errors between models (1) and (2). We conduct the above tests separately for the concurrent and stand-alone samples.

We report results for the concurrent sample in Table 2 Panel A. The adjusted R^2 is 0.628 in the model restricted to historical earnings (model (1)).¹⁶ In contrast, the adjusted R^2 is 0.755 when $GUIDANCE$ is the sole explanatory variable for next-period earnings (model (2)). The difference in adjusted R^2 between models (1) and (2) is statistically significant based on the Vuong test (the p -value is less than 0.001). When both $EARN_{i,t}$ and $GUIDANCE$ are included in the model (model (3)), the coefficient on $GUIDANCE$ is 0.760, significantly higher than the $EARN_{i,t}$ coefficient of -0.008 (the t -statistic for the difference is 13.11). The $GUIDANCE$ coefficient is also significantly higher than the coefficients on the four lagged earnings variables.¹⁷ Adding $GUIDANCE$ to the earnings model increases the adjusted R^2 from 0.628 in model (1) to 0.762 in model (3), but adding actual earnings to the guidance model has little effect on the adjusted R^2 , increasing it by 0.007 (from 0.755 of model (2) to 0.762 of model (3)). Results from the prediction error tests also indicate that future earnings guidance has greater predictive ability than current earnings for future earnings. We calculate per-share absolute earnings prediction errors (APE) as the absolute value of the difference between actual earnings for quarter $t+1$ ($EARN_{i,t+1}$) and predicted earnings based on historical earnings or earnings guidance using parameters estimated from models (1) or (2). The mean APE for the historical-earnings-only model (model (1)) is significantly greater than the mean APE for the guidance-only model (model (2)) - the t -statistic for the difference in mean APE values is 6.59.¹⁸

Results from estimating models (1)-(3) for the stand-alone sample, reported in Table 2 Panel B, are generally consistent with those for the concurrent sample. Earnings guidance has significantly higher explanatory power and lower absolute prediction errors than historical earnings. When both guidance and historical earnings are included in the model, earnings guidance has a significantly higher coefficient. Taken together, the evidence suggests that earnings guidance is a considerably stronger predictor of future earnings than current-quarter earnings. That is, earnings guidance is more relevant than current earnings for predicting future earnings.

Table 2. Association of concurrently announced current earnings and future earnings guidance with future earnings.

$$\text{EARN}_{i,t+1} = a_0 + a_1\text{EARN}_{i,t} + a_2\text{EARN}_{i,t-1} + a_3\text{EARN}_{i,t-2} + a_4\text{EARN}_{i,t-3} + a_5\text{EARN}_{i,t-4} + a_6\text{GUIDANCE}_{i,t+1} + \varepsilon_{i,t}$$

	Coefficient	Model 1		Model 2		Model 3	
		Coefficient Estimate	t-Statistic	Coefficient Estimate	t-Statistic	Coefficient Estimate	t-Statistic
<i>Panel A: Concurrent Announcement Sample (N = 1044)</i>							
Intercept	a_0	0.037***	3.48	0.029***	3.66	0.011	1.34
EARN _{i,t}	a_1	0.470***	13.25			-0.008	-0.22
EARN _{i,t-1}	a_2	0.096***	2.70			0.126***	4.44
EARN _{i,t-2}	a_3	0.098***	2.95			0.006	0.21
EARN _{i,t-3}	a_4	0.589***	18.01			0.019	0.55
EARN _{i,t-4}	a_5	-0.371***	-9.82			0.004	0.13
GUIDANCE _{i,t+1}	a_6			0.846***	56.68	0.760***	24.15
Adjusted R ²		0.628		0.755		0.762	
Model 3: Tests of the differences between the GUIDANCE _{i,t+1} and earnings coefficients:							
EARN _{i,t}	$a_6 - a_1$					0.768	13.11
EARN _{i,t-1}	$a_6 - a_2$					0.634	15.28
EARN _{i,t-2}	$a_6 - a_3$					0.754	17.11
EARN _{i,t-3}	$a_6 - a_4$					0.741	12.16
EARN _{i,t-4}	$a_6 - a_5$					0.756	22.11
Testing the difference in Adjusted R ² for models 1 and 2: Z-statistic = -5.29 (p-value < 0.0001)							
Testing the difference in absolute prediction errors (APE):							
	Mean	t-Statistic	Mean	Mean			
APE	0.115		0.088	0.088			
APE(1) APE(2)	0.027***	6.59					
APE(1) APE(3)	0.027***	7.30					
APE(2) APE(3)	0.000	-0.38					
	Coefficient	Model 1		Model 2		Model 3	
		Coefficient Estimate	t-Statistic	Coefficient Estimate	t-Statistic	Coefficient Estimate	t-Statistic
<i>Panel B: Stand-Alone Announcement Sample (N = 2598)</i>							
Intercept	a_0	0.027***	3.42	-0.012**	-2.35	-0.041***	-7.29
EARN _{i,t}	a_1	0.648***	26.94			0.187***	10.23
EARN _{i,t-1}	a_2	-0.046**	-2.20			0.007	0.47
EARN _{i,t-2}	a_3	-0.140***	-6.02			-0.064***	-4.02
EARN _{i,t-3}	a_4	0.769***	30.93			0.240***	12.40
EARN _{i,t-4}	a_5	-0.525***	-18.90			-0.133***	-6.63
GUIDANCE _{i,t+1}	a_6			0.934***	89.99	0.760***	55.36
Adjusted R ²		0.529		0.757		0.784	

Table 2. Continued.

Model 3: Tests of the differences between the $GUIDANCE_{i,t+1}$ and earnings coefficients:				
$EARN_{i,t}$	$a_6 - a_1$		0.573 ^{***}	20.91
$EARN_{i,t-1}$	$a_6 - a_2$		0.753 ^{***}	39.51
$EARN_{i,t-2}$	$a_6 - a_3$		0.824 ^{***}	41.13
$EARN_{i,t-3}$	$a_6 - a_4$		0.520 ^{***}	18.12
$EARN_{i,t-4}$	$a_6 - a_5$		0.893 ^{***}	44.80
Testing the difference in adjusted R^2 for models 1 and 2: Z-statistic = -5.03 (p -value < 0.0001)				
Testing the difference in absolute prediction errors (APE):				
	Mean	t -Statistic	Mean	Mean
APE	0.152		0.087	0.085
APE(1) APE(2)	0.065 ^{***}	16.47		
APE(1) APE(3)	0.067 ^{***}	20.97		
APE(2) APE(3)	0.002 [*]	1.69		
Testing the difference in APE between the concurrent announcement (CA) and stand-alone (SA) samples:				
CA_APE(1) SA_APE(1)	-0.037 ^{***}	-4.43		
CA_APE(2) SA_APE(2)	0.001	0.03		
CA_APE(3) SA_APE(3)	0.003	0.42		

*, **, *** indicate significance at less than the 0.10, 0.05, and 0.01 level (two-tailed), respectively.

Variable definitions:

- $EARN_{i,t+1}$ = firm i 's one-quarter-ahead actual earnings per share (EPS);
- $EARN_{i,t}$ = firm i 's actual EPS in quarter t ;
- $EARN_{i,t-j}$ = firm i 's actual EPS j quarters before quarter t , $j = 1$ to 4, for historical earnings extending from the preceding quarter to the same quarter of the preceding fiscal year;
- $GUIDANCE_{i,t+1}$ = firm i 's guidance for one-quarter-ahead EPS;
- APE = mean absolute value of prediction error.

In our sample, stand-alone guidance occurs later in the fiscal quarter than concurrent guidance, and may be a stronger predictor of future earnings than concurrent guidance if managers incorporate substantial new information in guidance as the fiscal quarter progresses. We therefore test for differences in the predictive power of concurrent and stand-alone guidance. The mean absolute prediction error of the guidance-only model (model (2)) is 0.088 for the concurrent sample and 0.087 for the stand-alone sample, and the difference is not significantly different from zero (the t -statistic is 0.03). Thus, stand-alone and concurrent earnings guidance provide similar explanatory power for future earnings.

3.2. Market Reaction to Concurrent Announcements of Current Earnings and Future Earnings Guidance

We next examine market reactions to current earnings and simultaneously announced future earnings guidance. Investors must evaluate the relative relevance and reliability of simultaneously announced current earnings and future earnings guidance. The results discussed in the preceding section suggest that future earnings guidance is more relevant than historical earnings for predicting future earnings. However, investors

may view guidance as less reliable than earnings because it is based on possible future events, is discretionary, and is not audited or reviewed by independent auditors. Thus, it is an empirical question which earnings news is more strongly associated with stock returns. We address the above issues by estimating the following model:

$$\begin{aligned} \text{CAR}_{it} = & a_0 + a_1\text{UE}_{it} + a_2\text{FEG}_{it} + a_3\text{UE_LARGE}_{it} + a_4\text{FEG_LARGE}_{it} \\ & + a_5\text{EARNLOSS}_{it} + a_6\text{GUIDLOSS}_{it} + a_7\text{SIZE}_{it} + a_8\text{BM}_{it} \\ & + a_9\text{RETVOL}_{it} + \varepsilon_{it}, \end{aligned} \quad (4)$$

where CAR_{it} is the three-day cumulative abnormal return around firm i 's earnings announcement date for quarter t ; daily abnormal return is computed as raw return minus expected return based on the market model;¹⁹ UE_{it} is firm i 's unexpected earnings for quarter t , calculated as actual EPS in quarter t minus the mean of individual analysts' EPS forecasts for quarter t made within 60 days prior to quarter t 's earnings announcement date, deflated by stock price at the beginning of quarter t ; FEG_{it} is the news in firm i 's future earnings guidance for quarter $t+1$ disclosed with quarter- t earnings, calculated as managers' EPS forecast for quarter $t+1$ minus the mean of individual analysts' EPS forecasts for quarter $t+1$ made within 60 days prior to the guidance announcement date, deflated by the stock price at the beginning of quarter t ; $\text{UE_LARGE}_{it} = \text{UE}_{it}$ for large absolute unexpected earnings (i.e., $|\text{UE}_{it}| > 0.01$), and 0 otherwise; $\text{FEG_LARGE}_{it} = \text{FEG}_{it}$ for large absolute future earnings guidance (i.e., $|\text{FEG}_{it}| > 0.01$), and 0 otherwise; $\text{EARNLOSS}_{it} = 1$ if firm i 's EPS for quarter t is less than zero (i.e., a loss), and 0 otherwise; $\text{GUIDLOSS}_{it} = 1$ if GUIDANCE_{it} is less than zero (i.e., management predicts a loss), and 0 otherwise; SIZE_{it} is the logarithm of firm i 's market value at the beginning of quarter t ; BM_{it} is firm i 's book-to-market ratio at the beginning of quarter t ; RETVOL_{it} is return volatility, firm i 's standard deviation of daily stock returns for quarter t , estimated over the 100-trading-day period ending 2 days before the quarter- t earnings announcement.

The primary variables of interest in model (4) are the unexpected news in current earnings, UE, and the unexpected news in the guidance for one-quarter-ahead earnings, FEG. To control for nonlinearity in the returns-earnings relation (Freeman and Tse, 1992), we include two variables to allow differential slope coefficients for large UE and FEG – UE_LARGE, and FEG_LARGE.²¹ Hayn (1995) finds smaller return responses to earnings news for loss firms than for firms reporting profits, so we include EARNLOSS and GUIDLOSS in the model. Other studies find that market reaction to earnings news is affected by firm size-related differences in predisclosure information (Atiase, 1985; Freeman, 1987), and by growth prospects and risk (Collins and Kothari, 1989; Easton and Zmijewski, 1989), so we include SIZE, BM, and RETVOL in the model as control variables.

If simultaneously released current earnings and future earnings guidance both have incremental information content, then the coefficients on UE and FEG should be significantly positive. More importantly, if investors place greater weight on the relatively more reliable current earnings than on the relatively more relevant future earnings guidance, then returns will respond more strongly to current earnings news

than to future earnings guidance. That is, the coefficient on UE will be greater than the coefficient on FEG.

Firms are likely to self-select to announce current earnings and earnings guidance concurrently. The descriptive statistics in Panels B and C of Table I suggest that compared with firms that announce stand-alone guidance, firms that announce guidance simultaneously with earnings are larger and have more favorable guidance news, higher book-to-market ratios, higher return volatility, and greater consistency between news in current earnings and future guidance. Self-selection bias could yield biased ordinary least squares (OLS) estimates of model (4), and we therefore use the Heckman procedure (Heckman, 1979; Maddala, 1983, 1991) to correct for possible bias by modeling firms' decision to provide guidance concurrently with their earnings announcements:

$$\text{Announcement choice model: } \text{CONCURRENT}_i^* = \gamma'Z_i + \varepsilon_{ai}. \quad (5)$$

CONCURRENT_i^{*} is a latent variable that captures firms' unobserved tendency to release current earnings and future earnings guidance simultaneously. Instead of the latent choice variable, we observe firms' choice, denoted as CONCURRENT, which equals 1 if the firm releases current earnings and guidance simultaneously (consistent with CONCURRENT_i^{*} > 0), and 0 if the firm releases the two signals separately (consistent with CONCURRENT_i^{*} < 0). Z_i is the vector of determinants of firms' concurrent-announcement decision.

When firms systematically self-select into the concurrent-announcement and stand-alone-announcement samples, the error term in equation (4) depends on the firm's disclosure choice so that the expected value of this error term is different from zero. This violates the assumptions underlying ordinary least squares estimation, and there is self-selection bias when the non-zero-expected-value errors are correlated with the explanatory variables in equation (4). The key insight in Heckman (1979) is to model the self-selection bias as an "omitted variables" bias that is remedied by adding the omitted variable to the model:

$$\begin{aligned} \text{CAR}_{it} = & a_0 + a_1\text{UE}_{it} + a_2\text{FEG}_{it} + a_3\text{UE_LARGE}_{it} + a_4\text{FEG_LARGE}_{it} \\ & + a_5\text{EARNLOSS}_{it} + a_6\text{GUIDLOSS}_{it} + a_7\text{SIZE}_{it} + a_8\text{BM}_{it} \\ & + a_9\text{RETVOL}_{it} + \sigma_{ca}[\phi(\gamma'Z_i)/\Phi(\gamma'Z_i)] + u_{it} \end{aligned} \quad (6)$$

The added variable represents the expected value of the non-zero error term; σ_{ca} is the covariance between the error terms in models (4) and (5); and $\phi(\cdot)$ and $\Phi(\cdot)$ are the standard normal density function and cumulative distribution function, respectively. The term in the squared brackets of the added variable is often referred to as the inverse Mills ratio. In equation (6), the new error term, u_{it} , has zero mean and is uncorrelated with the independent variables, and the OLS estimation of the models yields unbiased estimates.

In the first stage of the Heckman two-stage procedure, we estimate the announcement choice model using Probit maximum likelihood estimation and compute the inverse Mills ratio, which is denoted by IMRATIO in the paper. We then estimate (6) using OLS. Managers' decisions on whether to provide guidance

with earnings may be driven by (1) the sign of current earnings news; (2) the sign of the news in future guidance; (3) the consistency of the news in the current earnings announcement and future earnings guidance; (4) general information availability, for example, related to firm size; (5) growth prospects, for example, related to the book-to-market ratio; and (6) risk, for example, related to returns variability. We specify the announcement choice model as:

$$\begin{aligned} \text{CONCURRENT}_{it} = & a_0 + a_1\text{UEPOS}_{it} + a_2\text{FEGPOS}_{it} + a_3\text{CONSISTENT}_{it} \\ & + a_4\text{EARNLOSS}_{it} + a_5\text{GUIDLOSS}_{it} + a_6\text{SIZE}_{it} \\ & + a_7\text{BM}_{it} + a_8\text{RETVOL}_{it} + \varepsilon_{it} \end{aligned} \quad (7)$$

where $\text{UEPOS}_{it} = 1$ if firm i 's unexpected earnings in quarter t equals or exceeds zero (good earnings news), and 0 otherwise; $\text{FEGPOS}_{it} = 1$ if firm i 's future earnings guidance news in quarter t equals or exceeds zero (good guidance news), and 0 otherwise; $\text{CONSISTENT}_{it} = 1$ if firm i 's unexpected earnings and future earnings guidance news in quarter t are consistent, and 0 otherwise.

Table 3. Probit estimation of the announcement choice model.

$\text{CONCURRENT}_{it} = a_0 + a_1\text{UEPOS}_{it} + a_2\text{FEGPOS}_{it} + a_3\text{CONSISTENT}_{it} + a_4\text{EARNLOSS}_{it} + a_5\text{GUIDLOSS}_{it} + a_6\text{SIZE}_{it} + a_7\text{BM}_{it} + a_8\text{RETVOL}_{it} + \varepsilon_{it}$			
(N = 3642)	Coefficient	Coefficient Estimate	Chi-square
Intercept	a_0	-1.784***	120.14
UEPOS	a_1	0.269***	19.43
FEGPOS	a_2	0.116*	3.61
CONSISTENT	a_3	0.152**	6.26
EARNLOSS	a_4	0.417***	20.10
GUIDLOSS	a_5	-0.387***	18.73
SIZE	a_6	0.073***	22.60
BM	a_7	0.362***	29.72
RETVOL	a_8	5.188***	12.13

*, **, *** indicate significance at less than the 0.10, 0.05, and 0.01 level (two-tailed), respectively.

Variable definitions:

CONCURRENT = 1 if earnings are announced concurrently with future earnings guidance, and 0 otherwise;

UEPOS = 1 if $\text{UE} \geq 0$ (good earnings news), and 0 otherwise;

FEGPOS = 1 if $\text{FEG} \geq 0$ (good guidance news), and 0 otherwise;

CONSISTENT = 1 if UE and FEG are consistent (both positive or both negative), and 0 otherwise;

EARNLOSS = 1 if actual EPS for quarter t is less than zero (loss firms), and 0 otherwise;

GUIDLOSS = 1 if GUIDANCE for one-quarter-ahead is less than zero (expected next-quarter loss), and 0 otherwise;

SIZE = logarithm of market value at the beginning of quarter t ;

BM = book-to-market ratio at the beginning of quarter t ;

RETVOL = standard deviation of daily stock returns.

We report the results of estimating the announcement choice model (7) in Table 3. Firms appear more likely to announce guidance concurrently with earnings when the news contained in either number is good, when the news in the items is consistent, and when guidance suggests an improvement on current earnings (firms with losses in current earnings) but not when future performance is poor (firms expecting a loss in the next quarter). In addition, concurrent announcements are more likely as firm size, book-to-market ratios, and return volatility increase. We use the estimates in model (7) to derive the inverse Mills ratio that is included in model (4) to correct for self-selection bias. The revised specification of model (4) is:

$$\begin{aligned} \text{CAR}_{it} = & a_0 + a_1\text{UE}_{it} + a_2\text{FEG}_{it} + a_3\text{UE_LARGE}_{it} + a_4\text{FEG_LARGE}_{it} \\ & + a_5\text{EARNLOSS}_{it} + a_6\text{GUIDLOSS}_{it} + a_7\text{SIZE}_{it} + a_8\text{BM}_{it} \\ & + a_9\text{RETVOL}_{it} + a_{10}\text{IMRATIO}_{it} + \varepsilon_{it}. \end{aligned} \quad (8)$$

We report estimation results for model (8) in Table 4. There is some evidence of self-selection bias as indicated by the significant coefficient on IMRATIO. The coefficients on UE and FEG are 9.564 and 3.992, respectively, both significantly positive (the *t*-statistics are 4.98 and 3.23, respectively). Thus both current earnings and future earnings guidance have incremental information content for returns.²² The coefficient on UE is significantly higher than the coefficient on FEG (the *t*-statistic is 2.55), suggesting that stock returns respond more strongly to current earnings news than to future earnings guidance news. The results suggest that investors consider the relatively high reliability of current earnings to be more important than the relatively high relevance of future earnings guidance when responding to the simultaneously announced earnings signals.

Table 4 also shows smaller price reactions to large absolute UE and FEG. The coefficient on large UE (i.e., $a_1 + a_3$) is not significantly different from zero, while the coefficient on large FEG (i.e., $a_2 + a_4$) is significantly negative. However, there are only 32 and 79 large-UE and large-FEG observations, respectively, so these results may not generalize to larger samples. RETVOL is negatively related to abnormal returns, while the coefficients on EARNLOSS, GUIDLOSS, SIZE, and BM are statistically insignificant.

Building on model (8), we next explore the possibility that investors' reaction to concurrently announced current earnings and future earnings guidance is affected by the consistency of the two signals. Specifically, we examine market reactions to current earnings and future earnings guidance news when they are consistent (both are positive or negative) and contradictory (one signal is positive while the other is negative). We are particularly interested in the contradictory news scenario because investors face a clear choice between the signals in current earnings and future earnings guidance. A stronger return reaction to current earnings than to future earnings guidance even with contradictory news would reinforce our overall finding that investors place greater emphasis on reliability than on relevance for simultaneously announced earnings and guidance. We include differential slope variables in the model to measure return responses to consistent versus contradictory earnings and future earnings guidance, and estimate the following regression model:²³

Table 4. Market reaction to concurrent announcements of current earnings and future earnings guidance.

$$CAR_{it} = a_0 + a_1UE_{it} + a_2FEG_{it} + a_3UE_LARGE_{it} + a_4FEG_LARGE_{it} + a_5EARNLOSS_{it} + a_6GUIDLOSS_{it} + a_7SIZE_{it} + a_8BM_{it} + a_9RETVOL_{it} + a_{10}IMRATIO_{it} + \varepsilon_{it}$$

(N = 1044)	Coefficient	Coefficient Estimate	t-Statistic
Intercept	a_0	0.088	1.35
UE	a_1	9.564***	4.98
FEG	a_2	3.992***	3.23
UE_LARGE	a_3	-10.415***	-4.56
FEG_LARGE	a_4	-7.032***	-4.47
EARNLOSS	a_5	0.011	0.71
GUIDLOSS	a_6	-0.025	-1.52
SIZE	a_7	-0.002	-0.62
BM	a_8	0.016	1.32
RETVOL	a_9	-0.422*	-1.72
IMRATIO	a_{10}	-0.061*	-1.79
Adjusted R ²		0.127	
<i>Tests</i>			
UE - FEG	$a_1 - a_2$	5.572**	2.55

*, **, *** indicate significance at less than the 0.10, 0.05, and 0.01 level (two-tailed), respectively.

Variable definitions:

CAR = three-day cumulative abnormal returns around earnings announcement date;

UE = unexpected earnings for quarter t , calculated as quarter t 's actual EPS minus the average of individual analysts' EPS forecasts of quarter t made within 60 days prior to quarter t 's earnings announcement date, deflated by the stock price at the beginning of quarter t ;

FEG = earnings news in future earnings guidance for quarter $t + 1$, calculated as management EPS estimate of quarter $t + 1$ minus the average of individual analysts' EPS forecasts of quarter $t + 1$ made within 60 days prior to guidance announcement date, deflated by the stock price at the beginning of quarter t ;

UE_LARGE = UE * LARGE, where LARGE = 1 if absolute (UE) > 0.01 and 0 otherwise;

FEG_LARGE = FEG * LARGE, where LARGE = 1 if absolute (FEG) > 0.01 and 0 otherwise;

EARNLOSS = 1 if actual EPS < 0 (loss), and 0 otherwise;

GUIDLOSS = 1 if guidance < 0 (loss), and 0 otherwise;

SIZE = logarithm of market value at the beginning of quarter t ;

BM = book-to-market ratio at the beginning of quarter t ;

RETVOL = standard deviation of daily stock returns, estimated over the 100-day period prior to earnings announcement date;

IMRATIO = the inverse Mills ratio for the correction of the self-selection bias.

$$CAR_{it} = a_0 + a_1UECST_{it} + a_2UECTD_{it} + a_3FEGCST_{it} + a_4FEGCTD_{it} + a_5UE_LARGE_{it} + a_6FEG_LARGE_{it} + a_7EARNLOSS_{it} + a_8GUIDLOSS_{it} + a_9SIZE_{it} + a_{10}BM_{it} + a_{11}RETVOL_{it} + a_{12}IMRATIO_{it} + \varepsilon_{it}, \quad (9)$$

where $UECST_{it}$ = consistent current earnings news; it is UE_{it} when UE_{it} and FEG_{it} both equal or exceed zero or are both less than zero; $UECST_{it}$ is zero when either UE_{it} or FEG_{it} equals or exceeds zero while the other variable is less than zero; $UECTD_{it}$ = contradictory current earnings news; it is UE_{it} when either UE_{it} or FEG_{it} equals or exceeds zero while the other variable is less than zero; $UECTD_{it}$ is zero if UE_{it} and FEG_{it} both equal or exceed zero or are both less than zero; $FEGCST_{it}$ = consistent future earnings guidance; it is FEG_{it} when UE_{it} and FEG_{it} both equal or exceed zero or are both less than zero, and zero otherwise; $FEGCST_{it}$ is zero when either UE_{it} or FEG_{it} equals or exceeds zero while the other variable is less than zero; $FEGCTD_{it}$ = contradictory future earnings guidance; it is FEG_{it} when either UE_{it} or FEG_{it} equals or exceeds zero while the other variable is less than zero; $FEGCTD_{it}$ is zero if UE_{it} and FEG_{it} both equal or exceed zero or are both less than zero.

If current earnings and future earnings guidance both have incremental information content regardless of whether they are consistent or contradictory, then the coefficients on $UECST$, $UECTD$, $FEGCST$, and $FEGCTD$ would be positive. We also examine the difference between the coefficients on consistent unexpected earnings and guidance ($UECST$ and $FEGCST$) for evidence on whether returns react more strongly to current earnings or guidance when the two signals are consistent. Next, we compare relative responses to contradictory unexpected earnings and guidance news ($UECTD$ and $FEGCTD$). Third, we compare the coefficients on consistent and contradictory unexpected earnings ($UECST$ and $UECTD$) to investigate the relative returns effect of current earnings news that is consistent with or contradicts concurrently announced future earnings guidance. Finally, we compare the coefficients on consistent and contradictory future earnings guidance ($FEGCST$ and $FEGCTD$) to examine differences in return responses to the news in earnings guidance that is consistent with or contradicts the news in concurrently announced current earnings.

We report the results in Table 5. As in Table 4, the $IMRATIO$ coefficient is statistically significant, consistent with self-selection bias. The coefficients for consistent news are 10.543 for $UECST$ and 2.712 for $FEGCST$ (the t -statistics are 4.89 and 1.89, respectively). The coefficients for contradictory news are 10.634 for $UECTD$ and 5.383 for $FEGCTD$ (the t -statistics are 4.46 and 3.63, respectively). All four coefficients are significantly positive, suggesting that both current earnings and future earnings guidance are incrementally informative about returns whether the signals are consistent or contradictory.

We report results for differences among the consistent and contradictory news coefficients at the bottom of Table 5. The coefficient on $UECST$ is significantly higher than the coefficient on $FEGCST$ (the t -statistic for the difference in coefficients is 2.86), and the coefficient on $UECTD$ is significantly higher than the coefficient on $FEGCTD$ (the t -statistic for the difference in coefficients is 2.22).²⁴ These results suggest that investors react more strongly to news in current earnings than to news in earnings guidance whether current earnings and guidance news are consistent or contradictory. The results corroborate those from Table 4 and suggest that investors value reliability over relevance and therefore attach greater importance to current earnings than to future earnings guidance.

Table 5. Market reaction to concurrently announced current earnings and earnings guidance conditioned on types of news.

$$CAR_{it} = a_0 + a_1UECST_{it} + a_2UECTD_{it} + a_3FEGCST_{it} + a_4FEGCTD_{it} + a_5UE_LARGE_{it} + a_6FEG_LARGE_{it} + a_7EARNLOSS_{it} + a_8GUIDLOSS_{it} + a_9SIZE_{it} + a_{10}BM_{it} + a_{11}RETVOL_{it} + a_{12}IMRATIO_{it} + \varepsilon_{it}.$$

($N = 1044$)	Coefficient	Coefficient Estimate	t -Statistic
Intercept	a_0	0.110	1.64
UECST	a_1	10.543 ^{***}	4.89
UECTD	a_2	10.634 ^{***}	4.46
FEGCST	a_3	2.712 [*]	1.89
FEGCTD	a_4	5.383 ^{***}	3.63
UE_LARGE	a_5	-11.326 ^{***}	-4.57
FEG_LARGE	a_6	-5.842 ^{***}	-3.40
EARNLOSS	a_7	0.007	0.40
GUIDLOSS	a_8	-0.019	-1.18
SIZE	a_9	-0.002	-0.87
BM	a_{10}	0.014	1.16
RETVOL	a_{11}	-0.468 [*]	-1.90
IMRATIO	a_{12}	-0.072 ^{**}	-2.07
Adjusted R^2		0.129	
Tests:			
UECST - FEGCST	$a_1 - a_3$	7.831 ^{***}	2.86
UECTD - FEGCTD	$a_2 - a_4$	5.252 ^{**}	2.22
UECST - UECTD	$a_1 - a_2$	-0.092	0.00
FEGCST - FEGCTD	$a_3 - a_4$	-2.671 ^{**}	1.97

^{*}, ^{**}, ^{***} indicate significance at less than the 0.10, 0.05, and 0.01 level (two-tailed), respectively.

Variable definitions:

UECST = UE * CST, where CST = 1 if consistent news and 0 otherwise;

UECTD = UE * CTD, where CTD = 1 if contradictory news and 0 otherwise;

FEGCST = FEG * CST, where CST = 1 if consistent news and 0 otherwise;

FEGCTD = FEG * CTD, where CTD = 1 if contradictory news and 0 otherwise.

Other variables: see notes to Table 4.

The coefficient on UECST is not significantly different from the coefficient on UECTD, suggesting that investors' responses to current earnings news are not affected by the consistency of current earnings and future earnings guidance news. Our comparisons of future earnings guidance coefficients yield different conclusions from those for unexpected earnings. The coefficient on FEGCST is significantly smaller than the coefficient on FEGCTD (the t -statistic for the difference in coefficients is 1.97), suggesting that investors respond more strongly to future earnings guidance that contradicts current earnings news than to future earnings guidance that is consistent with current earnings news.

Overall, the evidence suggests that current earnings affect stock returns more strongly than simultaneously announced future earnings guidance. Although investors find both earnings signals useful in predicting future cash flows, they place greater importance on the more reliable current earnings figure than the more relevant but less reliable future earnings guidance.

3.3. Market Reactions to Concurrent versus Stand-Alone Announcements

In this section, we investigate differences in investors' reactions to concurrently announced versus stand-alone earnings or guidance news. Firms in the stand-alone sample announce quarter t earnings and guidance for quarter $t + 1$ on different days.²⁵ We compute CAR_{it} for the stand-alone-sample firms by summing three-day cumulative abnormal returns around both the earnings announcement date and the guidance announcement date. We then estimate return responses to concurrently announced and stand-alone earnings and future earnings guidance in one regression model, with differential intercept and slope coefficients for the stand-alone announcement sample. Specifically, we create a dummy variable, SA , which equals 1 for the stand-alone announcement firms and zero otherwise. We estimate the following model:²⁶

$$\begin{aligned}
 CAR_{it} = & a_0 + a_1UE_{it} + a_2FEG_{it} + a_3UE_LARGE_{it} + a_4FEG_LARGE_{it} \\
 & + a_5EARNLOSS_{it} + a_6GUIDLOSS_{it} + a_7SIZE_{it} + a_8BM_{it} \\
 & + a_9RETVOL_{it} + a_{10}IMRATIO_{it} + b_0SA_{it} + b_1(SA_{it} \times UE_{it}) \\
 & + b_2(SA_{it} \times FEG_{it}) + b_3(SA_{it} \times UE_LARGE_{it}) \\
 & + b_4(SA_{it} \times FEG_LARGE_{it}) + b_5(SA_{it} \times EARNLOSS_{it}) \\
 & + b_6(SA_{it} \times GUIDLOSS_{it}) + b_7(SA_{it} \times SIZE_{it}) + b_8(SA_{it} \times BM_{it}) \\
 & + b_9(SA_{it} \times RETVOL_{it}) + b_{10}(SA_{it} \times IMRATIO_{it}) + \varepsilon_{it}. \quad (10)
 \end{aligned}$$

In this model, a_1 to a_{10} are coefficients for the concurrent announcement sample, and b_1 to b_{10} are incremental stand-alone-sample coefficients for each of the coefficients a_1 to a_{10} . The variables of interest are $(SA \times UE)$ and $(SA \times FEG)$. The coefficient on $(SA \times UE)$ is the incremental coefficient on stand-alone unexpected earnings, and indicates differences in investor reactions to stand-alone earnings announcements versus earnings announced with guidance. We conduct similar analysis on future earnings guidance by examining the coefficient on $(SA \times FEG)$ for evidence on differences in responses to stand-alone future earnings guidance versus return responses to guidance announced concurrently with earnings.

We report estimation results in Table 6.²⁷ The coefficient on $(SA \times UE)$ is not significantly different from zero (the t -statistic is -1.08), suggesting that the returns effect of current earnings news is similar for concurrent and stand-alone earnings announcements. In other words, the presence of news about future earnings does not affect investors' reaction to current earnings news. On the other hand, the coefficient on $(SA \times FEG)$ is significantly positive (the coefficient is 7.780, with a t -statistic of 3.81), suggesting that investors react more strongly to stand-alone guidance than to guidance released with earnings announcements. This suggests that when investors receive current-earnings and guidance news simultaneously, they focus more on the relatively reliable current earnings news than on the relatively relevant future earnings guidance, thereby reducing the response to future earnings guidance.

Finally, we compare investors' reaction to concurrent versus stand-alone earnings news conditioned on the consistency between current earnings and future earnings

Table 6. Market reaction to concurrent announcements versus stand-alone announcements.

$$CAR_{it} = a_0 + a_1 UE_{it} + a_2 FEG_{it} + a_3 UE_LARGE_{it} + a_4 FEG_LARGE_{it} + a_5 EARNLOSS_{it} + a_6 GUIDLOSS_{it} + a_7 SIZE_{it} + a_8 BM_{it} + a_9 RETVOL_{it} + a_{10} IMRATIO_{it} + b_0 SA_{it} + b_1 (SA_{it} \times UE_{it}) + b_2 (SA_{it} \times FEG_{it}) + b_3 (SA_{it} \times UE_LARGE_{it}) + b_4 (SA_{it} \times FEG_LARGE_{it}) + b_5 (SA_{it} \times EARNLOSS_{it}) + b_6 (SA_{it} \times GUIDLOSS_{it}) + b_7 (SA_{it} \times SIZE_{it}) + b_8 (SA_{it} \times BM_{it}) + b_9 (SA_{it} \times RETVOL_{it}) + b_{10} (SA_{it} \times IMRATIO_{it}) + v_{it}.$$

(N = 3642)	Coefficient	Coefficient Estimate	t-Statistic
Intercept	a_0	0.088	0.92
UE	a_1	9.564***	3.42
FEG	a_2	3.992**	2.22
UE_LARGE	a_3	-10.415***	-3.13
FEG_LARGE	a_4	-7.032***	-3.07
EARNLOSS	a_5	0.011	0.49
GUIDLOSS	a_6	-0.025	-1.04
SIZE	a_7	-0.002	-0.42
BM	a_8	0.016	0.90
RETVOL	a_9	-0.422	-1.18
IMRATIO	a_{10}	-0.061	-1.23
SA	b_0	-0.164*	-1.69
SA × UE	b_1	-3.479	-1.08
SA × FEG	b_2	7.780***	3.81
SA × UE_LARGE	b_3	5.063	1.28
SA × FEG_LARGE	b_4	-4.869*	-1.93
SA × EARNLOSS	b_5	0.007	0.27
SA × GUIDLOSS	b_6	0.037	1.38
SA × SIZE	b_7	0.002	0.33
SA × BM	b_8	0.013	0.60
SA × RETVOL	b_9	-1.027**	-2.44
SA × IMRATIO	b_{10}	-0.084	-1.22
Adjusted R ²		0.193	

*, **, *** indicate significance at less than the 0.10, 0.05, and 0.01 level (two-tailed), respectively.

Variable definitions:

CAR = for the concurrent announcement firms: three-day cumulative abnormal returns around earnings announcement date; for the stand-alone announcement firms: three-day cumulative abnormal returns around earnings announcement date plus three-day cumulative abnormal returns around guidance announcement date;

SA = 1 for observations from the stand-alone announcement sample, and 0 otherwise.

Other variables: see notes to Table 4.

guidance. Specifically, we examine whether the differential reaction to concurrent versus stand-alone earnings news depends on whether current earnings and future earnings guidance are consistent or contradictory. We extend model (10) to examine consistent and contradictory unexpected earnings (UECST and UECTD) and future earnings guidance (FEGCST and FEGCTD):²⁸

$$\begin{aligned}
 CAR_{it} = & a_0 + a_1UECST_{it} + a_2UECTD_{it} + a_3FEGCST_{it} + a_4FEGCTD_{it} \\
 & + a_5UE_LARGE_{it} + a_6FEG_LARGE_{it} + a_7EARNLOSS_{it} \\
 & + a_8GUIDLOSS + a_9SIZE_{it} + a_{10}BM_{it} + a_{11}RETVOL_{it} \\
 & + a_{12}IMRATIO_{it} + b_0SA_{it} + b_1(SA_{it} \times UECST_{it}) \\
 & + b_2(SA_{it} \times UECTD_{it}) + b_3(SA_{it} \times FEGCST_{it}) \\
 & + b_4(SA_{it} \times FEGCTD_{it}) + b_5(SA_{it} \times UE_LARGE_{it}) \\
 & + b_6(SA_{it} \times FEG_LARGE_{it}) + b_7(SA_{it} \times EARNLOSS_{it}) \\
 & + b_8(SA_{it} \times GUIDLOSS_{it}) + b_9(SA_{it} \times SIZE_{it}) + b_{10}(SA_{it} \times BM_{it}) \\
 & + b_{11}(SA_{it} \times RETVOL_{it}) + b_{12}(SA_{it} \times IMRATIO_{it}) + \varepsilon_{it}. \quad (11)
 \end{aligned}$$

In this model, a_1 to a_{12} are coefficients for the concurrent announcement sample, and b_1 to b_{12} are incremental stand-alone-sample coefficients for each of the coefficients a_1 to a_{12} . The variables of interest are $(SA \times UECST)$, $(SA \times UECTD)$, $(SA \times FEGCST)$, and $(SA \times FEGCTD)$.

The results, reported in Table 7, indicate that for current earnings news, the coefficients on $(SA \times UECST)$ and $(SA \times UECTD)$ are not significantly different from zero (the t -statistics are -1.28 and -0.39 , respectively). On the other hand, for future earnings guidance, the coefficients on $(SA \times FEGCST)$ and $(SA \times FEGCTD)$ are significantly positive, with coefficients of 8.418 and 7.265 , and t -statistics of 3.58 and 3.05 , respectively. The results provide further evidence that return reactions to current earnings news are unaffected by the presence of earnings guidance news. In contrast, return reactions to future earnings guidance are weaker when guidance is announced concurrently with current earnings.

4. Additional Analysis

In the analysis above, we find that investors respond more strongly to current earnings than to future earnings guidance when earnings and guidance are announced concurrently. Furthermore, return responses to current earnings news are similar for concurrent and stand-alone announcements, but investors react more strongly to stand-alone guidance than to guidance released concurrently with earnings announcements. In this section, we further investigate the effects of differences in the concurrent and stand-alone samples on our results.

As we note above, future earnings guidance that is announced simultaneously with earnings tends to contain more positive news and is more likely to be consistent with current earnings news than stand-alone future earnings guidance. We use the Heckman procedure in the preceding analysis to correct for potential self-selection bias.

To further investigate the effects of differences in the concurrent and stand-alone samples on our results, we repeat our tests on a sample with similar concurrent and stand-alone guidance news. We match each concurrent-news observation with a stand-alone-news observation from the same year and quarter based on unexpected

Table 7. Market reaction to concurrent announcements versus stand-alone announcements conditioned on types of news.

$$\begin{aligned}
 \text{CAR}_{it} = & a_0 + a_1\text{UECST}_{it} + a_2\text{UECTD}_{it} + a_3\text{FEGCST}_{it} + a_4\text{FEGCTD}_{it} \\
 & + a_5\text{UE_LARGE}_{it} + a_6\text{FEG_LARGE}_{it} + a_7\text{EARNLOSS}_{it} + a_8\text{GUIDLOSS}_{it} \\
 & + a_9\text{SIZE}_{it} + a_{10}\text{BM}_{it} + a_{11}\text{RETVOL}_{it} + a_{12}\text{IMRATIO}_{it} \\
 & + b_0\text{SA}_{it} + b_1(\text{SA}_{it} \times \text{UECST}_{it}) + b_2(\text{SA}_{it} \times \text{UECTD}_{it}) + b_3(\text{SA}_{it} \times \text{FEGCST}_{it}) \\
 & + b_4(\text{SA}_{it} \times \text{FEGCTD}_{it}) + b_5(\text{SA}_{it} \times \text{UE_LARGE}_{it}) + b_6(\text{SA}_{it} \times \text{FEG_LARGE}_{it}) \\
 & + b_7(\text{SA}_{it} \times \text{EARNLOSS}_{it}) + b_8(\text{SA}_{it} \times \text{GUIDLOSS}_{it}) + b_9(\text{SA}_{it} \times \text{SIZE}_{it}) + b_{10}(\text{SA}_{it} \times \text{BM}_{it}) \\
 & + b_{11}(\text{SA}_{it} \times \text{RETVOL}_{it}) + b_{12}(\text{SA}_{it} \times \text{IMRATIO}_{it}) + \varepsilon_{it}.
 \end{aligned}$$

(N = 3642)	Coefficient	Coefficient Estimate	t-Statistic
Intercept	a_0	0.110	1.13
UECST	a_1	10.543***	3.36
UECTD	a_2	10.634***	3.06
FEGCST	a_3	2.712	1.30
FEGCTD	a_4	5.383**	2.49
UE_LARGE	a_5	-11.326***	-3.14
FEG_LARGE	a_6	-5.842**	-2.34
EARNLOSS	a_7	0.007	0.28
GUIDLOSS	a_8	-0.019	-0.81
SIZE	a_9	-0.002	-0.60
BM	a_{10}	0.014	0.80
RETVOL	a_{11}	-0.468	-1.30
IMRATIO	a_{12}	-0.072	-1.42
SA	b_0	-0.186*	-1.89
SA × UECST	b_1	-4.714	-1.28
SA × UECTD	b_2	-1.539	-0.39
SA × FEGCST	b_3	8.418***	3.58
SA × FEGCTD	b_4	7.265***	3.05
SA × UE_LARGE	b_5	6.345	1.47
SA × FEG_LARGE	b_6	-5.964**	-2.19
SA × EARNLOSS	b_7	0.002	0.08
SA × GUIDLOSS	b_8	0.040	1.45
SA × SIZE	b_9	0.001	0.21
SA × BM	b_{10}	0.009	0.44
SA × RETVOL	b_{11}	-1.085**	-2.56
SA × IMRATIO	b_{12}	-0.108	-1.54
Adjusted R ²		0.194	

*, **, *** indicate significance at less than the 0.10, 0.05, and 0.01 level (two-tailed), respectively.

Variable definitions:

CAR = for the concurrent announcement firms: three-day cumulative abnormal returns around earnings announcement date; for the stand-alone announcement firms: three-day cumulative abnormal returns around earnings announcement date plus three-day cumulative abnormal returns around guidance announcement date;

SA = 1 for observations from the stand-alone announcement sample, and 0 otherwise.

Other variables: see notes to Tables 4 and 5.

guidance news (FEG).²⁹ We re-estimate model (11) based on this sample and report the results in Table 8. We find results similar to those reported above in Table 7. Specifically, for concurrently announced earnings and future earnings guidance, the returns coefficient for current earnings news is significantly higher than the coefficient for future earnings guidance.³⁰ In addition, the coefficients on simultaneously announced and stand-alone unexpected earnings news are similar (the coefficients on $(SA \times UECST)$ and $(SA \times UECTD)$ are not significantly different from zero), but return responses to stand-alone guidance are *stronger* than return responses to guidance that is announced simultaneously with earnings (the coefficients on $(SA \times FEGCST)$ and $(SA \times FEGCTD)$ are significantly positive). These results again suggest that stand-alone guidance generates stronger stock price reaction than guidance released with earnings announcement, whether the news in the two earnings numbers is consistent or contradictory. We conclude that our results showing (1) stronger responses to earnings news than to concurrently announced future earnings guidance, and (2) stronger responses to stand-alone guidance news than to concurrent guidance news are not due to self-selection among concurrent-announcement firms.

Finally, we examine whether our results are sensitive to including multiple observations for the same firm in the sample. We rerun all tests using a sample that includes only the latest announcement for a firm. Untabulated results show that all inferences remain unchanged.

5. Summary and Conclusions

We examine market reactions to earnings announcements and future earnings guidance when firms provide both simultaneously. The concurrent disclosure of current earnings and future earnings guidance is a particularly interesting setting because it allows us to examine the relative importance of relevance and reliability to investors. Information about current earnings is more reliable than future earnings because current earnings are based on past transactions, and are audited or reviewed by independent auditors. In contrast, future earnings guidance is based on possible future transactions, is discretionary, and is not audited or reviewed by independent auditors. However, investors generally value securities based on their expectation of a firm's future performance, so information about future earnings should be more value-relevant than historical information. Investors are likely to evaluate both relevance and reliability in assessing the usefulness of earnings information. Therefore, investors' relative responses to current earnings announcements and future earnings guidance can reveal their preference for relevance and reliability.

We first establish that future earnings guidance is more strongly associated with next-period earnings than are historical earnings, suggesting that earnings guidance is more relevant than current earnings for predicting future earnings. We next examine the association of future earnings guidance and current earnings with announcement-period stock returns. We correct for potential self-selection bias in our returns analyses using the Heckman procedure. We find that current earnings

Table 8. Market reaction to concurrent announcements versus stand-alone announcements conditioned on types of news – matched stand-alone sample.

$$\begin{aligned}
 CAR_{it} = & a_0 + a_1UECST_{it} + a_2UECTD_{it} + a_3FEGCST_{it} + a_4FEGCTD_{it} \\
 & + a_5UE_LARGE_{it} + a_6FEG_LARGE_{it} + a_7EARNLOSS_{it} + a_8GUIDLOSS \\
 & + a_9SIZE_{it} + a_{10}BM_{it} + a_{11}RETVOL_{it} + a_{12}IMRATIO_{it} \\
 & + b_0SA_{it} + b_1(SA_{it} \times UECST_{it}) + b_2(SA_{it} \times UECTD_{it}) + b_3(SA_{it} \times FEGCST_{it}) \\
 & + b_4(SA_{it} \times FEGCTD_{it}) + b_5(SA_{it} \times UE_LARGE_{it}) + b_6(SA_{it} \times FEG_LARGE_{it}) \\
 & + b_7(SA_{it} \times EARNLOSS_{it}) + b_8(SA_{it} \times GUIDLOSS_{it}) + b_9(SA_{it} \times SIZE_{it}) + b_{10}(SA_{it} \times BM_{it}) \\
 & + b_{11}(SA_{it} \times RETVOL_{it}) + b_{12}(SA_{it} \times IMRATIO_{it}) + \varepsilon_{it}.
 \end{aligned}$$

(N = 2088)	Coefficient	Coefficient Estimate	t-Statistic
Intercept	a_0	-0.018	-0.31
UECST	a_1	12.056***	4.65
UECTD	a_2	11.685***	3.92
FEGCST	a_3	4.131***	2.61
FEGCTD	a_4	6.358***	3.64
UE_LARGE	a_5	-12.868***	-4.28
FEG_LARGE	a_6	-7.334***	3.76
EARNLOSS	a_7	0.027	1.51
GUIDLOSS	a_8	-0.038*	-1.94
SIZE	a_9	0.001	0.48
BM	a_{10}	0.031**	2.43
RETVOL	a_{11}	-0.190	-0.71
IMRATIO	a_{12}	-0.004	-0.06
SA	b_0	-0.142*	-1.76
SA × UECST	b_1	-5.153	-1.33
SA × UECTD	b_2	-5.468	-1.25
SA × FEGCST	b_3	5.610**	2.40
SA × FEGCTD	b_4	7.554***	2.98
SA × UE_LARGE	b_5	5.942	1.25
SA × FEG_LARGE	b_6	-4.392	-1.45
SA × EARNLOSS	b_7	-0.015	-0.57
SA × GUIDLOSS	b_8	0.080***	2.80
SA × SIZE	b_9	0.003	0.80
SA × BM	b_{10}	-0.001	-0.07
SA × RETVOL	b_{11}	-1.174***	-3.06
SA × IMRATIO	b_{12}	-0.148	-1.64
Adjusted R^2		0.136	

Concurrent-announcement and stand-alone observations are matched on the sign and magnitude of earnings guidance news within the same quarter.

*, **, *** indicate significance at less than the 0.10, 0.05, and 0.01 level (two-tailed), respectively.

Variable definitions:

CAR = for the concurrent announcement firms: three-day cumulative abnormal returns around earnings announcement date; for the stand-alone announcement firms: three-day cumulative abnormal returns around earnings announcement date plus three-day cumulative abnormal returns around guidance announcement date;

SA = 1 for observations from the stand-alone announcement sample, and 0 otherwise.

Other variables: see notes to Tables 4 and 5.

and future earnings guidance both have incremental information content. However, current earnings news is more strongly associated with stock returns than is future earnings guidance. In addition, return responses are stronger for current earnings regardless of whether current earnings and future guidance news are consistent or contradictory. The results suggest that investors attach greater importance to the reliability of current earnings than to the relevance of future earnings guidance when responding to simultaneously disclosed current earnings and guidance.

We also examine whether return responses to stand-alone earnings news differ from return responses to concurrently announced earnings news. For current earnings news, we find no significant difference between return reactions to stand-alone earnings and to earnings released concurrently with guidance, suggesting that future earnings guidance does not affect return response to current earnings news. In contrast, we find a stronger return reaction to stand-alone guidance than to guidance disclosed concurrently with current earnings announcements. We find similar results whether the news in current earnings and guidance is consistent or contradictory. This suggests that when investors receive multiple contemporaneous earnings signals, they focus primarily on the less relevant but more reliable current earnings and pay less attention to the more relevant but less reliable future earnings guidance, thereby weakening the response to future earnings guidance. The findings suggest a stronger role for current earnings than for future earnings in determining stock prices.

Overall this study provides important insights regarding the relative informativeness of current earnings information versus uncertain future projections, and by implication, investors' trade-off between relevance and reliability of earnings signals. Our results are relevant to the ongoing debate on disclosure requirements for forward-looking information. The FASB does not currently require companies to provide forward-looking earnings information, primarily due to its low reliability. The FASB's emphasis on reliability relative to relevance appears to be consistent with investors' preferences, as evidenced by the results of our study.

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Notes

1. Dye and Sridhar (2004, p. 52) note that "one of the most fundamental problems of financial accounting concerns how to make reliability-relevance trade-offs."
2. In its Statement of Financial Accounting Concepts No. 2, the FASB states: "The reliability of a measure rests on the faithfulness with which it represents what it purports to represent, coupled with an assurance for the user, which comes through verification, that it has that representational quality." (Statement of Financial Accounting Concepts No. 2, paragraph 59). We characterize current earnings as relatively more reliable because they are based on past events and are audited or reviewed by independent auditors, while guidance is partly based on events that may not yet have occurred and is not audited or reviewed by independent auditors. Current earnings are also more reliable than future earnings guidance disclosures because current earnings are typically announced as a specific dollar amount after each fiscal quarter while guidance may be announced at management's discretion as to timing and form (i.e. point estimate, range, maximum, or minimum expected amounts).
3. The results are also consistent with a scenario where investors perceive current earnings news as more permanent than the news in future earnings guidance. For example, if the current earnings news reflects a permanent sales increase while the guidance news reflects a one-time restructuring charge to next quarter earnings, one would expect a greater response to current earnings news. This possibility can be addressed by examining the association of current earnings versus future earnings guidance with long-term earnings (i.e., beyond the next quarter), and is an interesting issue for future research.
4. We classify disclosures that equal or exceed prior consensus expectations as *good news*, and classify disclosures that are less than the prior consensus expectations as *bad news*.
5. That is, investors' responses reflect how they trade off relevance and reliability in earnings news. The result is also consistent with a scenario where concurrent guidance is more likely to contain information about transitory items in next-quarter earnings while stand-alone guidance is more likely to contain information about permanent items.
6. For example, Hutton et al. (2003) eliminate future earnings guidance made concurrently with earnings announcements, explaining that these forecasts would confound their information content tests.
7. Specifically, we exclude open-ended or qualitative forecasts because we cannot determine the magnitude of earnings news for these disclosures unambiguously.
8. Among our sample of concurrent-announcement firms, 20.8% (217 observations) provide point management forecasts and 79.2% (827 observations) provide range forecasts. The market reaction to the news in future earnings guidance is statistically indistinguishable for firms providing point versus range forecasts (the *t*-statistic to test the difference in coefficients is 1.09). The mean width of the range for range forecasts is \$0.033, compared with a mean EPS forecast of \$0.325. Our results are unchanged when we use the top or bottom of the range (instead of the mid-point) to compute the news in future earnings guidance.
9. We use Factiva to search PR Newswire, the Business Wire and Dow Jones Newswires for press releases.
10. The increase in the number of concurrent disclosures for the 2001–2003 period is consistent with Hefflin, Subramanyam and Zhang's (2003) finding of a large increase in forward-looking disclosures after Regulation FD (Fair Disclosure). The increase may also be due to more extensive firm coverage by *Thomson Financial*. We find similar results in the pre- and post-FD periods, so our results are not affected by changes in firms' guidance frequency or in *Thomson Financial's* coverage.
11. Because our sample firms all disclose earnings first and then future earnings guidance in their press releases, we are unable to determine whether return responses depend on which news item (earnings or guidance) is disclosed first in the press release (i.e., a relative placement effect). Our conclusions may be limited if relative placement affects return responses.
12. We require that guidance be issued after the quarter *t* earnings announcement date to ensure that quarter *t* earnings are available to firms in both samples when they decide when to issue guidance, and we require that guidance be issued before the end of quarter *t* + 1 to eliminate earnings preannouncements (which are early announcements of historical earnings rather than predictions of future earnings).

13. The mean interval between earnings and guidance announcement dates is 48 days, and the median is 51 days.
14. We Winsorize firm size (SIZE), book-to-market ratio (BM), and return volatility (RETVOL) at 1% and 99% of their distributions. The results are not sensitive to the Winsorization.
15. Among the 580 consistent-news firms, 428 (74%) have positive current earnings and guidance news, and 152 (26%) have negative current earnings and guidance news. Among the 464 contradictory-news firms, 414 (89%) have positive earnings news and negative guidance news, and 50 (11%) have negative earnings news and positive guidance news.
16. The adjusted R^2 drops to 0.43 when lagged earnings are excluded from model (1).
17. The GUIDANCE coefficient is significantly greater than the coefficients on each of the five actual earnings terms when each actual earnings term is included in the model individually (the p -values are less than 0.001 in all tests).
18. We obtain similar results when we deflate the absolute forecast error by the firm's stock price at the end of the fiscal quarter.
19. We estimate the market model using equal-weighted market returns over the 100-day period from day -101 to day -2 relative to quarter t 's earnings announcement date.
20. We include four differential intercept terms for large-positive and large-negative UE and FEG to accommodate nonlinearity in the relation of returns with UE and FEG. We do not report those coefficients in the tables.
21. We define large UE and FEG using the 0.01 cutoff point. Freeman and Tse (1992) document that earnings response coefficient (ERC) obtained from a sample including observations with $UE \geq 0.01$ is much smaller than ERC obtained from a sample excluding such observations.
22. The results are not likely to be affected by collinearity. The Pearson (Spearman) correlation coefficient between UE and FEG is 0.227 (0.233), as reported in Table 1 Panel D. However, neither coefficient changes substantially when we exclude the other from the regression model. The UE and FEG coefficient estimates when both variables are included in the model are 9.564 and 3.992, respectively; the coefficients are 8.977 and 3.411, respectively, when we exclude the other variable from the model (all coefficients are significant at better than the 0.001 level). The variance inflation factors are 7.76 for UE and 7.70 for FEG, respectively, both below 10, which is the cut-off suggested for excessive multicollinearity by Belsley et al. (1980).
23. We include four differential intercept terms for large-positive and large-negative UE and FEG to accommodate nonlinearity in the relation of returns with UE and FEG, but do not report those coefficients in the tables.
24. We also re-estimate model (9) allowing market reactions to vary with the signs of earnings news for the following four scenarios: (1) positive UE and FEG; (2) negative UE and FEG; (3) positive UE and negative FEG; and (4) negative UE and positive FEG. We find stronger market reactions to current earnings news than to future guidance for the first three scenarios, but market reactions to current earnings and future guidance news are not significantly different for the fourth (negative UE/positive FEG) scenario. This last category contains 50 observations, compared with 152–428 observations for the three remaining groups, and the small sample size may explain the insignificant result.
25. We discuss the selection of the stand-alone sample in Section 2.
26. We include four differential intercept terms for large-positive and large-negative UE and FEG to accommodate nonlinearity in the relation of returns with UE and FEG, but do not report those coefficients in the tables.
27. The estimated intercept and coefficients in model (10), a_0 to a_{10} are for the concurrent announcement sample, and are identical to those in model (8) (reported in Table 4) but have different t -statistics. This is because we estimate coefficient standard errors in model (10) using observations from both samples but only use observations from the concurrent announcement sample in model (8).
28. We include four differential intercept terms for large-positive and large-negative UE and FEG to accommodate nonlinearity in the relation of returns with UE and FEG, but do not report those coefficients in the tables.
29. We require that the matched stand-alone guidance news have the same sign and be closest in magnitude to the concurrent guidance news. As a result, earnings guidance news (FEG) is not significantly

different between the concurrent sample and the matched stand-alone sample (the t -statistic for the difference is -0.06). In addition, current earnings news (UE), firm size (SIZE) and return volatility (RETVOL) do not significantly differ between the two samples. The book-to-market ratio (BM) remains significantly higher for the concurrent announcement sample (the t -statistic for the difference is 2.34). We estimate the model using the Heckman procedure to correct for any remaining differences between the two samples.

30. That is, the coefficient on UECST is significantly higher than the coefficient on FEGCST (the t -statistic for the difference in coefficients is 2.87), and the coefficient on UECTD is significantly higher than the coefficient on FEGCTD (the t -statistic for the difference in coefficients is 2.18).

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