QJFA

Quarterly Journal of Finance and Accounting

Volume 60 *Issue 1 & 2* *Winter & Spring 2022*

Creighton UNIVERSITY

Seasonality and Analyst Forecasting

DOUGLAS AYRES
Butler University

STEVEN DOLVIN
Butler University

Abstract

Chang, Hartzmark, Solomon and Soltes (2017) document anomalous and substantial stock market reactions to quarterly earnings releases for firms that exhibit seasonal earnings patterns. They partly attribute this finding to heightened financial analyst forecast errors for seasonal firms, but they do not examine why, to what extent or which firm and analyst characteristics impact the error. We fill this gap by further examining the relation between seasonality and analyst forecast error. Utilizing a novel measure of seasonality and a sample of North American firms, we document that seasonal business patterns appear to reduce overall forecast accuracy and lead to greater levels of disagreement among analysts, which generally supports the findings of Chang et al. (2017). We note that analyst experience offsets the effect of seasonality, as more experienced analysts are able to produce more accurate, less dispersed estimates for seasonal firms.

Keywords: Financial Analysts, Business Seasonality, Forecasting, Analyst Traits

JEL Classifications: G10, G17, G41, M40

Insider Trading Profits Before and After the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

PARTHA GANGOPADHYAY
St. Cloud State University

KEN C. YOOK
Johns Hopkins Carey Business School

Abstract

In this paper we examine the profitability of insider trades in financial and non-financial firms before and after passage of the Dodd-Frank Act of 2010 (DFA). We find that insider trades in financial firms were not profitable either before or after the DFA, after adjusting for firm size, past stock returns and overall market index return. For non-financial firms, insider purchases were highly profitable before the DFA, but not after the DFA. Insider sales were not profitable either before or after the DFA. The DFA broadened the legal prohibition on insider trading. Based on evidence in the literature, we posit that renewed regulatory focus on insider trading, market conditions and increased investor awareness through media coverage explain our results.

Keywords: Insider Trading, Private Information, Government Regulation

JEL Classifications: G00, G14

CEO Power and Lawsuit Likelihood

AKHILESH BAJAJ
University of Tulsa

Abstract

This study examines whether and how chief executive officer (CEO) power relates to the likelihood of lawsuits against public corporations. We obtain lawsuit data from the special items section of the income statement since companies report their lawsuit settlement gain or loss in this section. We find a significant positive relation between CEO power and lawsuit likelihood, suggesting that firms with powerful CEOs are more likely to become involved in lawsuits. We further find that this relation is largely driven by male CEOs and is stronger for firms with shorter CEO tenure, firms with relatively older CEOs and firms with lower cash holdings.

Key Words: CEO Power; Lawsuit; Special Items; Income Statement
JEL Classifications: D23; G14; G38; M12

Analyzing the Effect of Share Repurchases on Liquidity under Changed Legal Framework: Evidence from India

CHARU BANGA
De Montfort University Dubai

AMITABH GUPTA
University of Delhi

Abstract

The Indian capital markets saw changes in tax laws under the Finance Bill 2016. The bill levied an additional income tax of 10% on dividends above INR 1 mn, without changing the existing zero capital gains tax policy on share repurchases made by firms, thus making repurchases a tax-efficient means of surplus cash distribution. Subsequently, there was a many-fold increase in repurchase offers. This paper examines the impact of repurchases on stock liquidity over a short and a long period, considering different payout policies of a firm. We find evidence that companies with low debt, high inside shareholding and low institutional shareholding significantly influence cash payout decisions post-Finance Bill 2016, unlike in the U.S., UK and Canada, where profitability, size and growth are significant drivers. Also, a change in the taxation framework did not lead to the substitution of repurchases with dividends. Instead, repurchases complement dividend payouts. Finally, results show that stock liquidity is enhanced for companies with stable payouts through dividends or dividends along with repurchases.

Key Words: Liquidity Measures, Share Repurchase, Dividend, Substitution Effect, Difference-in-Difference Panel Regression
JEL Classifications: G12, G35