Abstract

Using a large database consisting of daily closing prices for more than a thousand companies from Europe, as well as a set of news provided on a daily basis for those companies, I examine the behavior of securitiy prices after publication of important news. To analyze the problem relative returns are used instead of absolute returns, as analyzed company-specific stories should be compared to company-specific returns, which should not include other factors (market, country, sector). The approach consists of creating two strategies/portfolios - the first portfolio takes stocks after publication of relevant news with negative price impact, whereas the second portfolio takes stocks after publication of relevant news with positive impact. A significant pattern is demonstrated showing that portfolios consisting of stocks which experienced “relevant” bad news exhibit substantial negative performance. No such patterns are indicated in performance of portfolio consisting of stocks which experienced “relevant” good news, except for the period of financial crisis 2008-2009. These findings partly support the ones of Chan [Chan, 2003] and contradict the popular view about investors overreaction to news [DeBondt and Thaler, 1985; Jegadeesh and Titman, 1993]. Measured by relative return, consistent under-reaction to negative news throughout the period 2004-2012 is demonstrated.