Stocks drop when no one asks questions during earnings calls, study shows

October 2 2014, by Samantha Harris

Quarterly earning calls that receive zero questions or a very low number of questions during the question-and-answer session of the call lead to a significant decrease in stock price according to new research from the McCombs School of Business at The University of Texas at Austin.

McCombs Associate Professor Shuping Chen and her co-authors analyzed nearly 50,000 earnings conference calls from 2002-2012 and identified 9,434 calls that either received zero or a low number of questions during an open-response Q&A session. They found that those companies' stock prices then dropped significantly following the call, resulting in a $4.3-6.1 million decrease in market capitalization.

Their findings reveal that a typical earnings call carries with it unintended consequences when those calls fail to elicit questions. An increase in information asymmetry, concluded the researchers, leads to an immediate, negative market reaction that is predictable, significant, and avoidable.

Information asymmetry occurs when one person has more information than someone else, such as a corporate executive who has more information about a company than an investor. This is measured by tracking the changes in intraday trading numbers. By taking the midpoint of the daily ask high and the daily bid low, researchers can chart a decrease in stock price surrounding the date of the earnings call. Calls that received zero or a low number of questions exhibited more negative returns in the five days following the calls—up to 135 basis points lower

than peer firms similar in size and analyst coverage.

Chen and her co-authors ruled out other variables to confirm their findings, such as company size, day of the week, time of the year, or even whether the call occurred at the same time as a major national news event.

"All things being equal," says Chen, "the fact that these earnings calls received so few questions is, by itself, the catalyst for the significant, negative market reaction we observed."

According to the study, the lack of interaction between managers and call participants can be detrimental both to investors and managers: the lack of questions deprives managers of a valuable opportunity to benefit from immediate feedback from market participants, and investors can interpret the lack of questions as a signal to sell.

Chen and her co-authors' findings call for follow-up research that takes a deeper look at investor relations programs and how they can avoid hosting quarterly earnings calls that don't generate questions. Initial suggestions include paid-for analyst research or face-to-face meetings with investors to improve firms' visibility and information dissemination.

More information: Chen, Shuping and Hollander, Stephan and Law, Kelvin, "The Price of Silence: When No One Asks Questions During Conference Calls" (June 12, 2014). Available at SSRN: ssrn.com/abstract=2449341 or dx.doi.org/10.2139/ssrn.2449341

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