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Intraday Trading Behavior around Interim Earnings Announcements on the Helsinki Stock Exchange

Traditionally, the informational role of earnings announcements has been evaluated by considering the price reaction. Much knowledge has been gained on the way in which prices respond to new information. Recently, however, an increasing number of trading volume studies and studies on intraday trading behavior have been published. This has been facilitated by the recent availability of transaction data from stock exchanges around the world in the last decade. These studies have identified various patterns in intraday trading.

The purpose of the present study is to investigate whether and how an anticipated information event such as an interim earnings announcement affects the intraday trading behavior in the Finnish stock market. Accordingly, if anticipated disclosures have an ex ante information content, traders will time their transactions in response to the anticipated informational event. Thus the widely documented U-shape pattern in trades - namely heavy trading in the beginning and at the end of the trading day and relatively light trading in the middle of the day - may be affected by the information event. The theoretical background to intraday trading behavior in this study is based on Admati and Pfleiderer (1988), and Brock and Kleidon (1992). These models assume that the existence of heterogeneous investors combined with periodic market closure affect trading behavior during the trading day.

In order to learn more about the intraday trading of investors around anticipated information events, intraday trading behavior around interim earnings announcements is examined using Finnish stock market data. This setting helps to assess whether interim earnings announcements affect to the intraday timing of trades in Finland. The results indicate that an announcement affects investors' intraday trading. Before the announcement day, trading is more concentrated at the close. This is consistent with investors' heterogeneous ability to bear expected overnight risk, which is especially prevalent before an announcement. Moreover, a slight increase on the open is evident after the announcement day. Evidence is also provided that the change in intraday trading behavior is associated with announcement-related factors, such as the range of analysts' earnings forecasts, the magnitude of unexpected earnings and firm size. Furthermore, the association is evident to some extent during the transition between trading and non-trading regimes.