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## **Pre-disclosure Information Asymmetry and Information Content as a Means of Explaining Trading Volume Responses to Interim Earnings Announcements in a Thinly Traded Stock Market**

The market reaction to the public announcement of accounting earnings has been one of the primary fields of accounting research. Prior research shows quite clearly that earnings contain information that is useful to the markets. Usefulness is primarily judged by observing price reactions. Besides the return behavior, the usefulness of an announcement to individual investors can be assessed by observing trading volume behavior. Recently an increasing number of trading volume studies – both theoretical and empirical – have been published. In these studies the proposition is that the heterogeneity of investors is one of the major sources of trading in the market.

The aim of the present paper is to empirically investigate whether the trading volume reaction to an interim earnings announcement is associated with the information content of the announcement and the existence of pre-disclosure information asymmetry in the Finnish stock market. The theoretical background in this paper for the analysis of the trading volume reaction is based on Kim and Verrecchia (1991a), who show that volume is the product of the absolute value of price reaction and the level of pre-disclosure information asymmetry among investors. In empirical studies conducted in the US, abnormal volume is found to be related to the information content of the announcement and pre-disclosure information asymmetry.

This study aims to contribute to the existing body of literature in the following ways. Firstly, there are very few studies in which volume behavior around (interim) earnings announcements is analyzed based on Finnish data. However, the Finnish stock market, with its thin and unequally distributed trading volumes, provides a suitable forum to study the robustness of previous empirical findings produced in more developed stock markets (e.g. the US). Secondly, financial analysts' earnings forecasts have hardly been studied in Finland. In fact, up to now it has been difficult to obtain data on variations in analysts' earnings forecasts for research purposes. This lack has been felt especially in volume studies, where pre-disclosure information asymmetry is commonly proxied by the dispersion and/or range of analysts' earnings forecasts. Also, market earnings forecast is proxied in this study by the consensus of analysts' earnings forecast, a practice not typically used in studies employing Finnish data. In previous studies earnings expectations have commonly been based on previous earnings announcements.

The data consist of 118 interim earnings announcements released by 21 firms traded on the Helsinki Stock Exchange between 1992 and 1996. Evidence is provided that the trading volume reaction is positively associated with the absolute price reaction and to some extent with the level of pre-disclosure information asymmetry. These results are consistent with the theoretical trading volume proposition. However, the significance levels are lower than similar US studies and the association between positive and negative news is slightly asymmetric.