DOES THAI STOCK MARKET RESPOND RATIONALLY TO EARNINGS ANNOUNCEMENT?

ANUWAT TANASITTIPAN
5402042021

Master of Science Program in Finance (International Program)
Faculty of Commerce and Accountancy Thammasat University, Bangkok, Thailand
May 2013

ABSTRACT

This study examines stock price reaction to surprises in firms' earnings in the Stock Exchange of Thailand. The evidence contradicts the efficient market hypothesis which states that the new information should be reflected in the stock price immediately and properly. When facing a certain level of earnings surprise, the SET50 stocks, being larger companies with more institutional trading activity and analyst coverage, respond less significantly compared to non-SET50 firms. This study documents abnormal return for SET50 firms indicating post-earnings announcement drift from the announcement date until as long as 32 days afterward while, on the contrary, firms in non-SET50 group shows overreaction. The reactions cannot be fully explained by systematic biases in analyst forecasts.

Keywords: Earnings announcement, Post earnings announcement drift, Overreaction, Analyst forecast