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Activities

Meetings

Data

People

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Playing Favorites: How Firms Prevent the Revelation of Bad News

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We explore a subtle but important mechanism through which firms manipulate their information environments. We show that firms control information flow to the market through their specific organization and choreographing of earnings conference calls. Firms that "cast" their conference calls by disproportionately calling on bullish analysts tend to underperform in the future. Firms that call on more favorable analysts experience more negative future earnings surprises and more future earnings restatements. A long-short portfolio that exploits this differential firm behavior earns abnormal returns of up to 101 basis points per month. Further, firms that cast their calls have higher accruals leading up to call, barely exceed/meet earnings forecasts on the call that they cast, and in the quarter directly following their casting tend to issue equity and have significantly more insider selling.

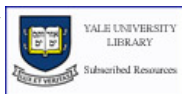


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