Headline Salience and Over- and Underreactions to Earnings

Xuan Huang
California State University, Long Beach

Alex Nekrasov
University of California, Irvine

Siew Hong Teoh
University of California, Irvine

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If investors have limited attention, then greater salience of earnings news implies a stronger announcement date return reaction, and a weaker post-earnings announcement drift (PEAD) or reversal (PEAR). Using a new measure, *SALIENCE*, calculated as the number of quantitative items in an earnings press release headline, we find strong evidence consistent with salience effects. Higher *SALIENCE* firms are more likely to be profit firms, have higher current earnings and operating cash flows, lower earnings persistence, and greater post-announcement insider selling. Higher *SALIENCE* is associated with stronger announcement reaction and subsequent PEAR. The results are robust to inclusion of an extended set of control variables. The findings are consistent with investor limited attention, and managers opportunistically headlining positive financial information in the earnings press release to incite overoptimism in investors with limited attention.

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