World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:9, No:05, 2015

Asymmetric Relation between Earnings and Returns

Authors : Seungmin Chee

Abstract : This paper investigates which of the two arguments, conservatism or liquidation option, is a true underlying driver of the asymmetric slope coefficient result regarding the association between earnings and returns. The analysis of the relation between earnings and returns in four mutually exclusive settings segmented by ‘profits vs. losses’ and ‘positive returns vs. negative returns’ suggests that liquidation option rather than conservatism is likely to cause the asymmetric slope coefficient result. Furthermore, this paper documents the temporal changes between Basu period (1963-1990) and post-Basu period (1990-2005). Although no significant change in degree of conservatism or value relevance of losses is reported, stronger negative relation between losses and positive returns is observed in the post-Basu period. Separate regression analysis of each quintile based on the rankings of price to sales ratio and book to market ratio suggests that the strong negative relation is driven by growth firms.

Keywords : conservatism, earnings, liquidation option, returns
Conference Title : ICAFM 2015 : International Conference on Accounting and Financial Management
Conference Location : Istanbul, Türkiye
Conference Dates : May 21-22, 2015