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The impact of momentum compared to post-earnings announcement on the stock market

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ABSTRACT :

The thesis aims to analyse the comparative impact of momentum trading does have compared to post-earnings announcement on stock market movement and investor behaviour. Additionally, the other purpose is also to see how similar, different, or long lasting the impact is. Stock market prices are predominantly constructed based on raw numbers that are informed through financial statement release. In financial statements investors can see the performance of the company that they are interested in and based on the numbers make decisions. However, stock market movements often exhibit irrational behaviour driven by psychological biases, herding, and momentum trading strategies. By delving into the psychological and human aspects of investing, this thesis aims to uncover the factors driving illogical investment behaviour and their impact on market outcomes.

KEYWORDS: (5–8 keywords, check if necessary in the term bank).

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1 Introduction

Understanding how the stocks market prices are affected is still one of the main goals for investors. They want to maximize their profits and at the same time minimize the risks that they are taking. The common notion is that the prices are dictated by the performance number that are found in financial statements, but at the same time investor behaviour also impacts the prices. This creates price differentiations as investors decision-making becomes unpredictable and even illogical.

Behavioural finance investigates the reasons behind such unpredictable decision-making by investors. It combines sociological and psychological factors to conduct theories that explain these phenomena. One such phenomenon is momentum trading, which is partly driven by herding behaviour and cognitive biases. In momentum trading, investors collectively purchase stocks based solely on their past price increases rather than on fundamental value assessments. This creates a temporary rise in those stock prices, a momentum. This momentum will eventually decrease down to the correct price, due to market efficiency. Growth stocks are the ones that are prone to be affected with momentum. Value stocks are either affected insignificantly or not affected at all (Hirshleifer, 2001).

Post-earnings announcements are considered the most important piece of information from which the investors can make decisions. Commonly the most looked statistics are Earnings Per Share (EPS), Revenue Growth, Profit Margins, Cashflow Metrics and Balance sheet indicators such as debt levels and liquidity ratios. These statistics are concrete indicators of the company's health. Learning how to read them and understanding the right statistics is an important skill that investors need to know (Chordia T., & Shivakumar, 2006).

Hypothesis= Investing according to post-earnings announcement is more reliable than momentum

1.1 Purpose of the study

The purpose of this study is to compare the general impact the momentum trend has on stock markets and compare those findings with the impact of post-earnings announcement. This study will investigate the short-term and long-term effects of momentum and post earnings announcement and examine which one of these has a greater potential for profits with reasonable risks. Combining standard finance theories and descriptive theories will give us a wider view on the effects. I want to investigate these two phenomena, since they are often viewed as two different theories. Momentum is often analysed through past while and post-earnings announcement is the reaction to accounting information.

1.2 Structure of the study

After the first chapter that covers the introduction to this thesis, chapter two continues with standard finance theories, that oppose argue against the possibility of anything other than raw numbers affecting the stock market prices. Chapter three continues with an overview on descriptive theories that impact the stock market. These theories argue that markets are influenced for example by behaviours and biases. Chapter four is a literature review of studies that are related to set topic. Chapter five finally concludes the findings.

1.3 AI disclosure

During this thesis AI, which in this case was ChatGPT, was used as a supporting tool for language improvement, grammar checking and structural suggestions. This was done to ensure that the study would be academically viable and that the text made sense for the reader. Wording was affected in most of the study, with the chapter 4 having the biggest impact since it was the most complex one. Reference selection, argumentation and responsibility remain with me as the author.

2 Standard theories.

Standard theories, also referred as normative theories, describe how the stock market and investors should behave. If the markets only respond to relevant and specific information and investors behave rationally, these theories are used to predict the outcomes of stock or portfolio prices. These theories normally dismiss descriptive theories, because they are hard to link with calculations and figuring out how much they affect the stock market and investors.

2.1 Efficient market theory

Efficient market theory suggests that the stock market is efficient and that it always reflects realistic and accurate prices on stocks that are derived from the financial performances. According to Fama (1970), an efficient market is one where prices reflect available information, emphasizing that this ideal ensures all available information is already considered in stock prices, aiding investors and firms in making informed decisions.". This would lead to an argument that claims it is impossible to beat the market and that is better for investors to invest in passive and low-cost portfolios, that follow a similar path to market index.

For this theory to work it must fulfil certain conditions that are transparency and availability of information, rational investors, no transaction costs, market competition is equal, all participants interpret information the same way, there is no possibility for arbitrage, and the flow of information is unbiased and random. In theory this would be the ideal state of the stock market, but in practice these conditions are not met, and the stock prices are affected by other factors like behavioural finance. According to Fama (1970, p. 384), the efficient market hypothesis "contends that stock prices instantly and fully reflect all available information and thus, no investor can consistently achieve higher returns without assuming additional risk."

Efficient market theory is often split into three different types of forms which are weak-form of efficiency, semi-strong-form efficiency and strong-form of efficiency. Weak-form efficiency is directly linked to momentum, as past prices should not be able to determine future prices. Semi-strong-form efficiency is linked to post-earnings announcement, since the prices in the market do reflect the available information, although the reaction to set information might be delayed.

These types of market efficiencies are important to this thesis since they form the basis from which momentum and post-earnings announcement drift can be analyzed theoretically. If weak form of efficiency prevails, then momentum trading will not result in abnormal returns. If semi-strong form of efficiency prevails, then post-earnings announcement drift will cease when earnings news becomes known to the public.

2.2 Capital Asset Pricing Model (CAPM)

Capital asset Pricing model is a corner theory in finance, that explains the expected return of an investment through its systematic risk, which is measured by the beta. Systematic is market-wide risk-factor, that can't be eliminated by diversification unlike firm specific risk. Firm specific risk can be eliminated by diversifying the investment portfolio. CAPM argues with this, that only systematic risk should affect the expected return of an investment.

CAPM idea is that the expected return of the investment has a direct correlation to risk-free rate, the expected market return and the investments sensitivity to the market portfolio. Sensitivity of an investment to the portfolio is measured by the beta. Common rules to the CAPM are, that if the beta is above 1, the investment is expected to move more than the market. If the beta is below 1, the complete opposite is expected to happen with the investment expected to be moving less than the market.

CAPM formula:

$$E(R_i) = R_f + \beta_i [E(R_m) - R_f]$$

Where $E(R_i)$ is the expected return of the Investment, R_f is the risk-free rate, β_i is the beta and $[E(R_m) - R_f]$ is the market risk premium. The market risk premium is the additional return that investors need for investing in the risky market portfolio instead of risk-free asset. CAPM tries to provide a clear framework for an investment expected return and whether it is reasonable compared to the systematic risks level (Sharpe, 1964; Lintner, 1965; Bodie, Kane, & Marcus, 2014).

CAPM has a huge relevancy to this thesis, since it provides an explanation for expected returns from the point of view of standard theory. Momentum and post-earnings announcement directly challenge this view, since they can point out that stock returns can be somewhat predicted by past movements in price or public earnings information. If they both can point to abnormal returns that are not fully caused by beta, they make CAPM not as reliable as the only source to determine returns. This would mean that taking into consideration behavioural finance theories would be beneficial.

2.3 Random Walk

Random walk is a related theory to market efficiency, which tries to explain that this theory underpins the notion that past stock price movements cannot reliably predict future directions. According to Fama (1965), if stock prices genuinely follow a random walk, then any attempt to predict future prices using past data equates to mere guesswork, no better than random selection. This idea fundamentally questions the value of sophisticated trading techniques that seek to exploit historical data trends.

Consequently, the Random Walk Theory confirms the grounds of the Efficient Market Hypothesis (EMH), stating that the market is accurate in the sense that all the available information is already discounted into stock prices which are formed now. Therefore, it

becomes almost impossible for an investor to enhance long-term returns without some inside information. This defines that is the analogy of selling at the lowest price and the buying of stocks at the highest price. It tends to guess that the shocks about stock prices come from the unforeseeable nature of availability of newly accessible and unavailable information (Fama, 1965; Fama, 1995).

When analysing post-earnings announcement drift, random walk theory is relevant, since in an efficient market the stock prices should immediately be adjusted when earnings information is released to the public. Post-earnings announcement however suggest that prices may continue to rise or fall even after the announcement. This could be explained by slow reactions to the released information, which would challenge the idea that prices changes are random in these cases (Bernard & Thomas, 1989).

Random Walk Theory is relevant to this study, since it looks at momentum and post earnings announcement through the view of standard Finance Theory. It directly challenges them by suggesting that abnormal movements in the market are completely random and have no further theoretical explanation since it assumes that markets are efficient. Momentum and post-earnings announcement argue against this, since these phenomena show that the markets are not efficient.

3 Descriptive theories

Descriptive theories aim to explain the stock market price movements more from the view of investors behaviour, without assuming them to behave rationally but rather look at the psychological side of thing. This is more reflecting with real-life, where investors don't always behave rationally and markets are not efficient because the demanded conditions are not met. Shiller argues that stock price indexes seem too 'volatile,' and that the movements in stock price indexes could not realistically be attributed to any objective new information, as they appear 'too big' relative to actual subsequent events. This observation challenges the basic assumptions of descriptive theories that posit markets react rationally and proportionately to new information.

Descriptive theories play a particularly important role in studying market anomalies since descriptive theories consider the way investors really behave rather than the way in which they are supposed to behave. In practice, investors might be influenced by their emotions, lack of attention, overconfidence, and herding. As a result, they tend to have a delayed response or overreact, creating situations not always predictable through traditional finance theories.

3.1 Momentum

Jegadeesh and Titman (1993, p. 65) state that “strategies which buy stocks that have performed well in the past and sell stocks that have performed poorly in the past generate significant positive returns over 3- to 12-month holding periods.” This is the common view on momentum. This strategy opposes the standard theories, as they argue against beating the market. However descriptive theories like momentum strategies have empirically demonstrated the ability to outperform market indices over several years.

The cause of momentum is often related to other behavioural finance phenomena that are also against standard finance theories. The usual related theories are herding and

different confirmation biases that lead to over or underreactions in the stock market. Humans are ultimately herd animals and quite easily follow trends even if they don't make sense. Humans are also prone to make misjudgements and therefore search for totally irrelevant information to confirm their own beliefs. Standard theories argue that both should not be possible, as investors would act rationally and only take in relevant information. "Kelly, Moskowitz, & Pruitt (2021, p. 726) observe that 'Momentum also remains one of the few reliable violators of prevailing empirical asset pricing models such as the Fama and French (2015) five-factor model, and research has yet to identify a risk exposure that can explain the cross-sectional return premium associated with recent price performance.'"

More recent papers also suggests that the effects of momentum are not limited to stock market only but also for other investment vehicles like mutual funds Carhart (1997, p. 57) remarks, "My analysis indicates that Jegadeesh and Titman's (1993) one-year momentum in stock returns accounts for Hendricks, Patel, and Zeck Hauser's (1993) hot hands effect in mutual fund performance." Understanding that momentum can influence mutual fund performance helps explain why some funds consistently outperform others in the short term, adding a layer of strategy in fund management and investor choice. This "hot hands" effect again raises questions against market efficiency, as it should not be possible for this to exists in an entirely efficient market.

Momentum still has its own limitations and is not a completely risk-free strategy like nothing really is. Momentum made excess returns might later correct themselves if enough time has passed. This would suggest that momentum is depended on timing, market conditions and investor behaviour. These limitations are important, since the comparison between momentum and post-earnings announcement should not only be viewed by potential returns, but is should also take into consideration risk and stability (Kelly, Moskowitz, & Pruitt, 2021).

3.2 Post-earnings announcement drift

Post earnings announcement drift occurs because the stock market either over-or underreacts to the post earnings announcement. This is one of the biggest indications that market efficiency theory does not apply well in practice. If the markets were efficient, the reaction would be immediate and correct all the time. Bernard and Thomas (1989) find evidence that is more consistent with delayed investor response than with incomplete risk adjustment.

Livnat and Mendenhall (2006, p. 178) note that "post-earnings announcement drift is significantly larger when defining the earnings surprise using analysts' forecasts compared to a time series model based on CompStat earnings data." The absolute size of PEAD is significantly larger if one uses analysts' forecasts of earnings surprise compared to a time series model, utilizing the earnings data from Compstat. Analysts' forecasts that presumably contain other data and forward-looking estimates would present a better picture of how investors did react, hence the better prognosis for subsequent stock prices. This discovery is valuable for investors and analysts since it undeniably suggests that the strategy for computing the earnings surprises affects the directions of investments reliant on the earnings announcements.

Post-earnings announcement drift has a stronger tie to core finance theories than momentum, since the phenomena is directly linked to accounting information and specifically the release of this information. Investors would also be taking into consideration new information about the company when investing for instance profitability, revenue growth, margins in addition to past performance in the stock market. However, post-earnings announcement can directly impact momentum prices, which would mean that these two phenomena have some overlapping (Chordia & Shivakumar, 2006).

Behavioural finance would conclude that post-earnings announcement drift is caused by the market's slow reaction to complex information that is released. Investors might have

to take some time to interpolate this information before making the decision whether to invest or not. The decision is made based on financial information and not on the previous prices of the stock like in momentum (Daniel, Hirshleifer, & Subrahmanyam, 1998; Bernard & Thomas, 1989).

This is why post-earnings announcement drift is crucial to this thesis, as it can provide an information-related reason for the abnormal returns. In contrast with momentum that relies on prior prices, PEAD is related to firm-specific information. This distinction is critical for analyzing which of the two effects is a better choice for investors.

3.3 Momentum and post-earnings announcement drift as market anomalies

Market anomalies are events that are contrary to the expectations of standard financial theories including the Efficient Market Hypothesis (EMH). EMH postulates that the current prices we have today of an asset contain all the information hence it is very hard to make a return which is higher than the market return without increasing our risk level. But there are some patterns or irregularities in the market activities which goes against this theory called as market anomaly. Such opportunities can sometimes make investors earn more than the normal expected rate of return, an issue that brings into question the efficiency of financial markets.

Both momentum and post-earnings announcement can be classified as market anomalies since neither directly fit traditional financial theories nor have shown in the past to be strategies that have accumulated abnormal returns. Momentum is based on past prices, and post-earnings announcement is based on the delayed reaction of investors. This should not be possible in weak-form of market efficiency for momentum as past data should already be present in current prices , and in semi-strong-form market efficiency in post-earnings announcement as markets should react instantly to available

information and reactions should be equal regardless of the investor (Fama, 1970; Jegadeesh & Titman, 1993; Bernard & Thomas, 1989).

Market anomalies examine phenomena like momentum or post-earnings announcement drift and provide explanations to these patterns to help investors and researchers to understand them. Both question directly the concept of markets being efficient and therefore analysing them as market anomalies makes it easier to connect to theoretical discussions of market efficiency with later comparisons on stock prices.

4 The impact of momentum and post earnings announcement on stock market

This chapter will explore how momentum trading and post-earnings announcements affect the stock market, investor behaviour and market efficiency. Even though these two are different with one linked more to behavioural finance and the other to fundamental analysis, they both go against the traditional financial theories assumptions. The purpose of my study is to examine both momentum and post-earnings announcement drift and determine which of these is more reliable from an investor's perspective.

4.1 Momentum and its market influence

The real-life implications on momentum extend beyond theories, since several empirical studies have shown that strategies based on momentum are effective over a long period of time and have a significance influence on asset prices that often contradict the assumptions of market efficiency.

Barber and Odean (2000) note that independent investors are more likely to chase investments that have performed positively in the past. This behaviour is based on overconfidence and limited attention which then leads to these investments prices to be mispriced and give some investors a chance to exploit this. This is also backed by Daniel, Hirshleifer, and Subrahmanyam (1998), where they argue that these mispricing's can be predictable which just adds the possibilities to exploit the market more.

Retail investors can also be affected as Barber, Odean, and Zhu (2009) point out, that retail trades can move prices especially in less liquid stocks. Kelley and Tetlock (2013) also imply that retail order flows predict short-term returns, reinforcing that momentum is not just a statistical anomaly but rather a reoccurring behavioral phenomenon.

Momentum can also be seen on institutional investors. Sias (2004) and Wermers (1999) point out evidence of institutional herding, where fund managers copy each other's trades. This herding behavior is a clear indication of momentum strategy usage and goes against the belief that investors act rationally and extends to even seasoned professionals having this kind of behavior in the stock market. Institutional Herding Behavior undermines the conventional belief that investment professionals do not herd when making decisions. This would enhance the strength of momentum trading as it influences both retail and institutional investors to drive prices in one direction.

Momentum can be detected across different asset classes such as mutual funds. Carhart (1997), with Kelly, Moskowitz and Pruitt (2021) arguing for this by not being able to deny these connections. However, Shleifer and Vishny (1997) do point out that even the most accurate and rational arbitrageurs face limits correcting mispricing's due to several different reasons such as risk, capital constraints and timing problems.

Momentum is not without risks and the gains made from momentum strategies may diminish completely depending on changes in the market. Past winners might turn out to become losers while past losers turn into winners. Such reversals would obviously result in losses to investors overly relying on the past price movements. According to Shleifer and Vishny (1997), it should be noted that even rational arbitrators have limitations when eliminating mispricing due to their inability to do so under the risk constraints, timing issues, and other factors.

It is evident that the anomaly of momentum has a significant effect on the stock market, since it can contribute to increased price trends, herd behavior, and return predictability. Meanwhile, its reliance is limited by the possible occurrence of reversals and changes in the market environment. Nevertheless, the momentum effect remains quite strong despite its limitations and can be seen as a powerful but risky anomaly as opposed to earnings momentum.

4.2 Post-earnings announcement drift and its market influence

The impact of post-earnings announcement drift on the stock market can be explained by the delayed response of stock prices following the dissemination of earnings information. It follows from the logic that in case markets are efficient, then it means that when investors receive information in earnings reports, the information should instantly influence stock prices based on whether they are positive or negative compared to expectations. However, there are cases where the price reaction happens slowly, which causes post-earnings announcement drift.

An earnings surprise is when the earnings of a firm differ from what was expected either by the market or the analysts who make estimates on the firm's performance. The difference can be positive or negative, meaning superior or inferior performance for the stocks. Earnings surprises are critical because investors are not solely interested in the level of earnings, but in how well or poorly the firm has performed relative to their expectations. Livnat and Mendenhall (2006) observe that post-earnings announcement drift is higher where earnings surprises are calculated based on analyst estimates rather than time series analysis.

Post-announcement drift goes against the concept of semi-strong form of market efficiency. In line with semi-strong form efficiency, the stock price should incorporate all public information instantly. Earnings announcements are a piece of public information and therefore hence the market should have responded completely to the announcement. Yet, the research by Bernard & Thomas (1989) shows that it is possible for stocks to still be affected by earnings after the announcement.

Unlike momentum, which is solely dependent on historical stock prices, PEAD is more related to fundamental aspects since it is based on the release of accounting data by firms. Post earnings announcement drift may be viewed as an information anomaly

because that earnings releases have an impact on investor perceptions regarding future profitability and expectations. If the firm reports strong results, investors may revise their expectations about future profitability of the firm. Hence, this makes post-earnings drift an anomaly based on the quality of earnings information.

Notably, earnings data may sometimes be incorrectly interpreted by investors. There are times when earnings data does not give a clear picture of firm performance and investors might make wrong judgments based on post-earnings drift. In most cases, there could be reasons other than growth in firm operations leading to an earnings surprise such as cost-cutting or other accounting practices. Similarly, a decline in the firm's profits may be attributed to non-fundamental factors other than weak financial performance. (Daniel, Hirshleifer, & Subrahmanyam, 1998)

In summary, the problem of post-earnings announcement drift exists in the equity market because there can be a lag in investor reaction to accounting news released publicly. The existence of this problem is a challenge to market efficiency since price changes are supposed to occur instantaneously following the release of earnings news. This theory of post-earnings announcement drift is particularly significant to my thesis since it gives a different approach from momentum.

The impact of post-earnings announcement is thus different from momentum since the former is related to trends and investors' behaviour whereas the latter is related to the interpretation of information about the companies' earnings. It should be stressed that it is particularly significant as it means that PEAD can be more linked to fundamentals of the companies despite being subject to investor behaviour.

4.3 Post-earnings announcement drift and momentum compared

It is important to compare momentum and post-earnings announcement drift since they generate possible return predictability but rely on distinct triggers. Momentum relies on past returns, while post-earnings announcement relies on earnings surprises and

accounting information. Due to this reason, it is possible that momentum and PEAD differ in several aspects including reliability, risks, and utility for investors.

Both momentum and post-earnings announcement drift contradict the conventional financial theories. While momentum contradicts weak-form market efficiency by implying that past performance of an asset can be used to forecast future performance, PEAD contradicts semi-strong-form market efficiency, which assumes that all publicly available information is already reflected in stock price.

There is a fundamental difference between the two effects in terms of the underlying type of information. Momentum depends on price history since those using the strategy consider historical performance when buying stocks. In turn, PEAD depends on earnings data as investors who use such information consider whether company's earnings were better or worse than expected.

The second difference relates to the behavioural basis of each effect. Momentum has been linked with herding behaviour, overconfidence, and trend following (Fama, 1970; Jegadeesh & Titman, 1993; Bernard & Thomas, 1989). Investors may simply follow rising stock prices by buying or invest in trendy stocks, thereby increasing the momentum. PEAD has generally been linked with the concept of under-reaction and delayed information processing (Daniel, Hirshleifer, & Subrahmanyam, 1998; Sias, 2004; Wermers, 1999). The investor may not be able to comprehend the implications of the earnings surprises immediately, causing the continued price adjustment post-announcement.

Since reliability can be measured by relevance to standard finance theories, PEAD could be deemed as relatively reliable. This is because earnings reports offer fresh data regarding the fundamentals of a business. Thus, stock trading that relies on PEAD is likely to be more grounded in the fundamentals of a business than prior price actions.

On the other hand, if reliability is viewed as repeatable empirical evidence in markets and any time, then momentum is equally very significant. This is due to the reason that momentum trading has been observed in many empirical analyses over a large amount of time. This implies that momentum can never be termed unreliable. The challenge with momentum is that it may reverse in a changing environment of investor sentiment or market conditions.

Therefore, it should not be concluded that one phenomenon is necessarily better than another. On the contrary, their reliability can be influenced by specific circumstances under which these phenomena manifest themselves. The use of momentum trading strategies can prove effective when there are robust price movements; however, in times of reversals, momentum can be highly dangerous. PEAD appears to be grounded in the fundamentals; however, it relies on earnings data.

4.4 Implications for investors

Momentum and post-earnings announcement drift are important for investors to understand. Investors can have shown in past that their investments can make abnormal returns based on past price movements or reaction to the new information being released. Neither of these strategies is without risks and it is important to realise that one should not only for instance on information that has just been released or strong performance in the past.

Momentum is easier to understand for investors and thus it might make it more attractive for investors to rely on that strategy. This however can also be a weakness, in the sense that if investors follow a trend too strongly, the stock might become overpriced and increasing the risk of making a loss when the market eventually corrects itself (Jegadeesh & Titman, 1993; Kelly, Moskowitz, & Pruitt, 2021).

Post-earnings announcement drift can be argued to be the more reliable of these two, since the investors heavily rely on the information released to the public. Information however must be processed correctly and not just glanced over quickly. Investors must understand what information to look at and what the numbers might indicate for the future of the stock's price. Investors also must take into action other factors such as reputational gains or hits, that might affect the course of the price (Bernard & Thomas, 1989; Livnat & Mendenhall, 2006).

Both strategies contradict market efficiency in different ways, with momentum challenging the weak form of efficiency and post-earnings announcement challenging semi-strong efficiency. When examining both and looking on how they affect the market itself, it can be argued that the markets are efficient in terms of correcting the prices eventually, but there is a window of opportunity where investors can take advantage of the effect these strategies have and make abnormal returns.

The implication for investors is that there should not be reliance on momentum or PEAD without regard for the risk involved. While momentum is easily recognized, it is also prone to reversal. On the other hand, while post-earnings announcement may be fundamentally sound, the interpretation of earnings is an issue. The above clearly demonstrates why the ultimate judgment on the reliability factor is dependent on the definition of reliability by investors.

5 Conclusion

The purpose of this study was to compare momentum and post-earnings announcement as viable investment strategies and conclude what would be the best overall strategy to for investors. The study took into consideration standard theories and descriptive theories such as Efficient market theory, CAPM, Random walk and anomalies.

The findings indicate that both momentum and post-earnings announcement drift challenge the absolute version of market efficiency. Market eventually will correct the misalignments when enough time has passed, but determining certain time which is practically timing the market is an impossible task. It would need the investor to buy and sell the stock at perfect time and determining the perfect time to sell any stock is impossible.

Investors can however supplement their own investment strategy by adding both to their thinking when investing. They can look at the past stock's performance and at the same time examine the released information when deciding on when and what to invest in. This investment strategy is heavily rooted on behaviour and other biases, which makes the predictability of the outcome harder.

Based on the literature and my study, the hypothesis can be partly supported but not be confirmed fully. From a fundamental perspective, post-earnings announcement is more in alignment with traditional finance theories, because it at least is based on direct information from accounting numbers rather than just following a trend. Momentum however has strong empirical support and could be considered a viable strategy also. Momentum has strong recorded performances, but it is more sensitive to market sentiment and reversals (Jegadeesh & Titman, 1993; Kelly, Moskowitz, & Pruitt, 2021).

A limitation of this study is, that it is based on previous literature and therefore it is heavily reliant other authors empirical data. This causes the conclusion to be completely derived from earlier academic studies rather than my original testing. The results also

don't take into consideration market conditions, time, investor group and geographical market. These have a heavy impact on absolutely everything and need to be considered when looking into further studies.

For future examinations, momentum and post-earnings announcement should be looked from a specific markets point of view. Researchers could examine for example Finnish or USA stock market for this and see for instance the differences in how strongly the markets are affected in these instances by momentum and post-earnings announcement. Time period should also be taken into consideration, since it has strong implications on the type of investments that are made.

It could also be useful to look at what happens, when combining these strategies with each other or with standard theories. This could lead in findings, where a specific combination would be the ideal indicator for future performance. It could also determine how much investors should rely on standard theories compared to descriptive theories.

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