International Review of Accounting, Banking and Finance
Vol 2, No. 2, Summer 2010 Page 84~102

IRABF

A Cross-Industry Analysis of Investors' Reaction to Information Surprises: Evidence from NASDAQ Sectors

Peter J. Busha [a], Seyed M. Mehdian [a], Mark J. Perry [a]

a. School of Management, University of Michigan-Flint, Flint, MI 48502

Abstract: We use daily stock returns from the NASDAQ composite and sector indexes to investigate the reaction of investors to information surprises in the framework of the Efficient Market , Overreaction , and Uncertain Information Hypotheses. We find strong statistical evidence of a corrective process of significantly positive cumulative abnormal returns following the arrival of both unexpected favorable and unfavorable information for the NASDAQ Composite and four of its sector indexes. The main implication of these mixed empirical results is that investor reactions vary significantly by sector, highlighting the value of analyzing these sectors in addition to composite indexes.

1. Introduction

1.1 General Introduction

The Efficient Market Hypothesis (EMH) has been part of the essential framework of modern financial theory since it emerged as a prominent theory in the early 1960s. While there have been a multitude of studies conducted on various securities markets that provide empirical support of the EMH, there has also been a fair amount of skepticism raised regarding some of the primary assumptions of the hypothesis. One of the assumptions most frequently questioned by both industry professionals and academics alike is the EMH's basic assumption of investor rationality. This fundamental criticism of the EMH has been buttressed by market observations that seem to indicate that counter to the claims of the EMH, potential opportunities to earn a greater-than-normal return do