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LITERATURE REVIEW

Earnings Surprise Research: Synthesis and Perspectives

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Abstract

An investigation of the relation between earnings surprise and three empirical anomalies—the P/E effect, the size effect, and the Value Line enigma—indicates that the standardized unexpected earnings (SUE) effect appears to be separate and distinct from each of the three. The relations between the SUE phenomenon and firm risk, the appropriateness of the earnings expectations model, and the role of transaction costs are also investigated. The SUE phenomenon is not attributable to inappropriate risk adjustment, use of the “wrong” earnings expectations model, or ignoring transaction costs. The SUE effect may be partly explained by analysts' behavior and is both predictable and profitable. The SUE effect has also been observed in Japan.

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