A Test of U.S. Equity Market Reaction to Surprises in an Era of High Volatility

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Abstract

This paper examines the reaction of investors to the arrival of unexpected information in five major U.S. equity markets during the 1990s, a period characterized by high volatility and the increasing presence of noise-traders. Market surprises are identified using a strictly quantitative approach, and cumulative abnormal returns are calculated and tracked for a period of 30 days after each favorable or unfavorable event. The empirical results provide evidence that investors' reactions are consistent with the prediction of the Uncertain Information Hypothesis in all markets except NASDAQ. One of the major implications of these results for investors is that implementing a contrarian strategy of buying current losers and selling current winners will not generate superior returns.