FUND MANAGERS' AWARENESS OF ANNOUNCEMENT PREMIUMS

A STUDY ON FUND MANAGERS' INVESTMENT DECISIONS

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Value Creation in Actively Managed Swedish Mutual Funds: A Study on Fund Managers' Investment Decisions

Abstract:

In this paper, we interview fund managers of actively managed Swedish mutual funds to understand how they trade around earnings announcements. Based on an academic paper that we use as the basis for our paper, the authors of the paper find that fund managers on average tend to decrease their exposure to stocks ahead of earnings announcements, even though there is a significantly increased risk-reward and earnings announcement premium to earn ahead of the announcements. This is a new finding since the most logical would be to increase exposure ahead of the earnings announcements to earn the premium at a better risk-reward. These authors provide a possible explanation for this puzzle using a new stylized fact: stock holdings with significant negative realizations cause additional fund outflows. This thesis aims to understand, through interviews, if fund managers are aware of the earnings announcement premium and how they trade around these events. We find that most fund managers are not aware of the earnings announcement premiums. On average they are reluctant to buy ahead of the earnings announcements, which is consistent with the finding in the academic paper. We also find that no fund manager is aware of the significant outflows from their funds when a portfolio company has a negative realization.

Keywords:

Mutual Funds, Earnings Announcement Premium, Macroeconomic Announcement Premium, Decreasing Exposure, Fund Outflows

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1. Introduction

The earnings announcement premium, providing large returns in the 10 days leading up to the earnings announcements of listed companies, has been established by a good deal of prior studies (Frazzini and Lamont, 2007; Patton and Verado, 2012; Beaver, 1968). The premium is large enough to spur questions about its source and whether investors can utilize it to make profits. A lot of different sources have been provided by prior literature, such as private information, limited attention, and lottery-like preferences for retail investors incentivizing investments before announcements (Frazzini and Lamont, 2007 and Liu, Wang, Yu, and Zhao, 2020). It has been argued that the premium persists because of limits to arbitrage. Evidence has been provided of higher idiosyncratic risk during announcement events suggesting costly arbitrage (Barber, De George, Lehavy, and Trueman, 2013; Yang, Zhang, and Zhang, 2020). This argument is however contradicted by evidence of substantially increased risk-return trade-off around these events (Maggio et al., 2023). Recent findings instead show that institutions, who are more likely to act as arbitrageurs, on average reduce their exposure to announcing stocks by displaying abnormally negative order flow in the days ahead of the earnings announcement (Maggio et al., 2023). This finding holds irrespectively of the directions of the earnings announcement, suggesting that this cannot be the result of trading on private information. A significant correlation is also found between the size of the pre-announcement trading by institutions and the size of the earnings announcement premium, indicating that abnormal institutional trading is a driver of the premium.

Why institutional investors shy away from the earnings announcement premium and forego the increased risk-return tradeoff remains a puzzle. However, evidence of extreme realizations of the earnings announcement returns of individual holdings leading to substantial fund outflows has been found, suggesting that fund managers decrease their exposure to announcing stock to reduce the risks of fund outflows (Maggio et al., 2023). These realizations are argued to either be the cause of the learning process for the fund's clients or caused by investors with limited attention who focus on salient events to make their fund decisions. Either way, this provides a potential explanation for the puzzle.

In this study, we interview several fund managers to get evidence of institutional event trading from the source. We aim to examine if managers of actively managed Swedish mutual funds are aware of this increased risk-return premium, if they use any strategies to trade ahead of earnings- and macroeconomic announcements, if they experience outflows related to certain holdings if they decrease their exposures ahead of earnings- and macroeconomic announcements and what their expectations and concerns are ahead of these announcements. Since we are examining the behaviors of fund managers of actively managed Swedish mutual funds, based on an academic paper, we use a qualitative approach to a study based on interviews to provide an in-depth understanding of their trading behaviors and strategies, based on these three research questions:

(i) *Are the fund managers aware of the announcement premiums?*

(ii) *Do the fund managers decrease their exposure ahead of announcements?*

(iii) *Are fund managers aware of the outflows related to declines in individual holdings?*

We found that few fund managers knew about the announcement premiums and that the majority questioned its legitimacy. Many of them however agreed on the fact that much of the returns happen around the quarterly reports. As with the earnings announcement premium, most of the fund managers were not aware of the macroeconomic announcement premium either. We also found that several fund managers were reluctant to buy ahead of earnings announcements, and many believed it was a common phenomenon in the industry. Most fund managers mentioned that they do not have any trading strategies ahead of earnings announcements and that they are long-term investors and hence do not do short-term trades. For macroeconomic announcements, some evidence of similar behavior was mentioned by a few fund managers, however, most fund managers did not change their trading behavior ahead of these announcements. Only one fund manager recognized fund outflows due to extreme realizations in one company in their fund. The fund managers recognized that fund investors, based on news, can react to a certain holding, while however most fund investors think of the aggregate return and not the performance of one holding.

The purpose of this paper is three-fold. Firstly, we study real-world events to get in-depth knowledge and analysis about Swedish mutual fund managers' trading and strategies in a real setting. Secondly, we aim to contribute to the current literature by complementing the available academic results with real-world anecdotes from the mutual fund industry. We expand the literature by shedding light on how the people in the industry manage their funds. Thirdly, our study aims to provide material that can be used for teaching purposes at the Stockholm School of Economics, as well as other institutions.

We contribute to the existing literature in several ways even though numerous academic studies exist about earnings announcement premiums. However, to our knowledge, the literature about real-world anecdotes from the mutual fund industry is scarce in a Swedish context. Therefore, by providing in-depth insights into the industry, we provide new knowledge to this field of study. We also provide a new perspective on practical applications and how mutual fund managers react to academia's evidence.

In terms of limitations and scope, our paper focuses on the perspective of the mutual fund managers regarding the interviews conducted. We have also used and incorporated available public sources besides the interviews. In addition, one of the drawbacks of using the chosen study methodology is the lack of ability to draw general conclusions (Yin, 2014). Since this is a study based on Swedish mutual fund managers, our findings might not be applicable in other contexts. But as explained, the purpose of this paper is to provide in-depth knowledge of Swedish mutual fund managers trading behavior and strategies, and not primarily to draw general conclusions for the industry. Since we focus on mutual fund managers in Sweden, the findings might not be applicable in other markets. However, our findings may apply to how mutual fund managers act across different markets as they often share certain characteristics.

This paper is organized as follows. In section 2 we provide an overview of the existing literature, followed by section 3, in which we present the methodology. The evidence from our interviews can be found in section 4 and our analysis of the fund characteristics in section 5. In section 6, we discuss our findings and in section 7 we present the conclusion and suggestions for future research.

2. Literature review

This paper relates to several strains of literature focusing on the emergence of announcement premiums. Firstly, it relates to literature looking at the behavior of investors around news releases. Frazzini and Lamont (2007) show that small, individual investors on average buy announcing stocks ahead of announcements, creating price increases, and attribute this to announcing stocks catching the investors' attention. Kaniel, Liu, Saar, and Titman (2012) instead attribute the premium to institutions acting on private information being afraid of litigation and adverse publicity. Liu et al. (2020) show that demand for lottery-like stocks is stronger ahead of earnings announcements causing lottery-like stocks to outperform non-lottery-like stocks by 52 basis points in the 5-day window ahead of earnings announcements. Liu et al. (2020) attribute this to either lower inventory costs and immediate payoffs or because of enhanced investor attention. A recent finding by Maggio et al. (2023) however finds that institutional investors on average reduce their exposure to announcing stocks due to fund outflow risk from extreme realizations, which is positively correlated with the magnitude of the announcement premium, suggesting that institutional fear for fund outflows are driving the premium. Our findings show that most fund managers were not aware of the announcement premiums, which is in line with recent findings by Heitz, Narayanamoorthy, and Zekhnini (2020) who show that earnings announcement premiums have disappeared from the US markets since 2004. Several of them were also reluctant to buy ahead of earnings announcements, which supports the arguments by Maggio et al. (2023) that the premium emergence from the changed trading behavior of institutional investors resulted in decreased exposure ahead of announcements. However, our findings show that no manager considered fund outflow a risk when trading ahead of earnings announcements, which contradicts the arguments of Maggio et al. (2023). The managers however reason that the reason for reducing exposure is to protect against downside risk and poor fund performance, which in turn would lead to outflows.

On the topic of institutional investors, prior studies have concluded that institutions trade on private information ahead of announcements as they can predict the direction of earnings announcements (e.g., Irvine, Lipson, and Puckett, 2007;

Hendershott, Livdan, and Schurhoff, 2015). Regarding relating order flow before news releases to the direction of the news announcement, Campbell et al. (2009) and Hendeshott et al. (2015) show that more institutional buy-orders predict positive surprises. Maggio et al. (2023) instead relate order flow before earnings announcements to order flow in periods without announcements and find that institutional investors decrease their exposure to announcing stocks. Our findings support Maggio et al. (2023) findings as several managers described a tendency of being reluctant to buy ahead of earnings announcements and several believed similar behavior existed among other fund managers.

Secondly, our study also relates to theories about the pre-announcement premium being the result of uncertainty resolution. Lucca and Moench (2014) show that large average excess returns are created for US equities in anticipation of monetary policy decisions made at scheduled Federal Open Market Committee (FOMC) meetings, and similar returns have later been found for nonfarm payrolls, ISM, and GDP announcements as well (Hu, Pan, Wang, and Zu, 2022). This is argued as compensation for uncertainty resolution (Laarits, 2020; Hu et al., 2022) and supporting empirical evidence for this has been found for earnings announcements as well (Gao, Hu, and Zhang, 2021; Ni, Pan, and Pteshman, 2008; Maggio et al., 2023). An interesting finding from our interviews was that few managers knew about the premium and that the majority questioned its legitimacy. However, many agreed on the fact that much of the returns happen around the quarterly reports. As with the earnings announcement premium, most of the fund managers were not aware of this premium. However, most agreed that they do not try to predict the outcome of the announcements and that the interest rate announcements have the largest effect on the market.

Lastly, our study relates to the literature on how the funding conditions of institutional investors affect their trading behavior. Maggio et al. (2023) provide evidence of fund outflows from extreme realizations creating a potential funding risk for institutions. This relates to a broad literature on funding conditions affecting institutional trading behavior, such as Shleifer and Vishny (1997) arguing that fund managers' ability to exploit profit opportunities is limited by fear of redemptions, or Franzoni and Giannetti (2019) who find that hedge funds with more stable funding can redeem capital more freely and can capture price rebounds in times of crisis. Kaniel et al. (2012) have found that mutual funds might be averse to trading too aggressively before earnings announcements for fear of fund outflows. From our interviews, we found that only one fund manager recognized fund outflows due to extreme realization in their funds while no one said that they considered the potential outflow risk when making trading decisions as proposed by DiMaggio et al. (2023). However, most fund managers were reluctant to buy ahead of earnings announcements which could be seen as they are cautious and hence consider outflow risk when trading which supports the evidence by DiMaggio et al. (2023) and Kaniel et al. (2012). Instead, the fund managers recognized that fund investors, based on news, can react to a certain holding, while however most fund investors think of the aggregate return and not the performance of one holding.

3. Methodology

3.1. Empirical methodology

Although fund trading data can be deducted from holdings reports monthly or quarterly and is sometimes reported even more often as some managers publicly communicate their most important trades, to our knowledge managers seldom go in-depth about the logic and strategy behind individual trades in publicly available sources. With this in mind, we have selected a qualitative interview methodology to get in-depth information about the reasoning behind event trading from real-world fund managers. This methodology also enables us to verify whether factors affecting event trading that are provided by academia are also considered in the real world. We have complemented the qualitative interviews with a comparison to quantitative fund characteristics to be able to draw more conclusions about the qualitative findings from our interviews. Our study aims to understand why fund managers are withstanding the earnings announcement premium by being reluctant to increase exposure to announcing stocks, and whether explanations provided by academia, such as fund outflow risk from extreme realizations and own personal career are considered.

3.1.1. Data

The primary data source of this study is interviews conducted with people working at different mutual funds with insight into the strategies and trading that are conducted in the mutual fund. Primarily, this has been fund managers who are responsible for the investments made in the mutual fund (see Table 1 for an overview of interviewees). Some of the fund managers manage several funds and, in that case, we have chosen their fund with the highest AUM in SEK and retail offered fund. This has been done to make the funds more comparable to each other concerning returns and fees.

We have chosen these fund managers since their funds are actively traded and cover different investment spaces. Hence, we think that they contribute the most useful information to our thesis. Since interviews are the main part of our thesis, we have focused on presenting the material received from the interviews in a structured way, including preparing, conducting, and analyzing the information received in the interviews. The interviews that we have had have been recorded and transcribed. They were conducted in a semi-structured way (Merriam, 1994), which means that we prepared questions for the fund manager, but also let him speak about his strategies, experiences, and how he trades with the fund. Our interviews took place both in person and online and were conducted for 20-30 minutes from the 17th of March until the 12th of April 2023. In close connection to the interviews, we did the transcription and analysis of the interviews that we had. No information that we have been given in the interviews and that we have used in the thesis is considered confidential, and the information that we disclose has been accepted by the interviewees to use in our thesis. They have read the thesis and approved our interpretation of their answers and results. The thesis has been directed by us and the interviewees have not changed any information, discussion, or conclusion mentioned in our work.

Table 1

Overview of interviewees

Interviewee name	**Fund company**	**Fund type**[1]
Erik Sprinchorn[2]	TIN Fonder	Nordic Technology
Mattias Nilsson	Handelsbanken Fonder	Swedish Equities
Marcus Rylander	Swedbank Robur	Nordic Small Cap
Lars Söderfjell	Ålandsbanken	Nordic Equities
Mathias Svensson	Keel Capital	Nordic Equities
Christoffer Johansson	Naventi Fonder	Global Equities
Tommi Saukkoriipi	SEB Fonder	Swedish Equities
Jannis Kitsakis	AP4	Swedish Equities
Fund manager 9[3]	Fund manager 9	Swedish Equities
Stefan Sundblom	Swedbank Robur	Nordic Microcap

[1] Data retrieved from Morningstar on the 12th of April.
[2] Interview was conducted in person.
[3] Fund manager 9 wanted to be anonymous.

3.1.2. Limitations

Some limitations in our work need to be brought up as they might influence the outcome and conclusion of this thesis. The results from the paper that we base our thesis on and intend to ask the fund managers about have focused on 310 actively managed American funds. In our thesis, we ask Swedish long-term mutual fund managers about their strategies and trading behaviors. Hence, we do not know if similar flows that have been seen in the US capital markets are to be seen in Sweden as well. Another limitation is the number of mutual fund managers that we have interviewed and their investment space. We have not been able to do more than 10 interviews given the time limit of this thesis, nor interviewing a fund manager for every fund space that exists. It is also worth mentioning that this kind of strategy might be better suited for actively managed hedge funds since they normally make larger bets on certain events and have more mandates for their fund management, which could be another potential limitation to our thesis since we are interviewing actively traded "long-only" mutual funds. The part of the thesis with quantitative fund characteristics is being used as a basis for discussion to support our findings and relate them to the fund characteristics. It is also limited to its extent due to the interviews mainly answering the research questions for this thesis.

3.2. Method evaluation

Even though we consider interviewing fund managers for our thesis the best way to study our research question, finding interview candidates was somewhat difficult. This has mainly to do with the fact that most fund managers that we contacted did not have a certain strategy to trade ahead of earnings announcements or were aware of the earnings announcement premium that exists and hence turned down our request for an interview. Out of 24 contacted fund managers, 10 of them gave us an interview. However, the interviews that we conducted gave us a broad picture of how Swedish mutual fund managers trade and what their view is on this phenomenon. We do not think that including more managers of active mutual funds would have given us other answers or affected the quality of information used for this thesis since the many answers that we have received somewhat are aligned with each other. Hence, we consider the information received from the interviews as sufficient to be able to conduct an in-depth analysis of how managers of Swedish actively managed mutual funds see this phenomenon and what their strategies and trading patterns look like.

Considering this, it is however worth noticing that when conducting interviews, the information and response received from the interviewees' can be subject to issues such as poorly articulated questions, poor memory of events, and bias (Yin, 2014). To cope with this issue according to Yin (2014), one should work with multiple sources of data, known as triangulation. Therefore, we have conducted several interviews with fund managers active in different fund categories, and not just in one category. We have also worked with structured interviews which according to Wu (1967) are designed to collect the same type of information from each respondent to make the answers comparable. Hence, it is possible to see a more general pattern of how active Swedish fund managers manage their funds and provide a more accurate case.

Interviewing people might also suffer from non-replicability (Idowu, 2016). Therefore, we have systematically worked with a protocol of questions for every interview to be as structured as possible. Considering this however, it is not possible to assure that replicating this thesis would give the same results since they are dependent on the time of the interviews when they were conducted and the responses from the interviewees, as their strategies or other factors might have changed over time.

4. Evidence from case interviews

4.1. Announcement premiums

DiMaggio, Franzoni, Kogan and Xing (2023) find in their paper *Avoiding Idiosyncratic Volatility: Flow Sensitivity to Individual Stock Returns* that sizable returns are generated around earnings announcements and other scheduled macroeconomic announcements. They argue that this premium exists because of institutional limits to arbitrage and that the stocks with the largest institutional abnormal sales should be the ones with the greatest premium. This is because of a significant correlation that they find between the earnings announcement premium and the pre-announcement trading, i.e., the stocks that are sold the most have a return premium that is significantly larger than for other stocks. After conducting a placebo test, they find that the relationship between return premium and institutional sales is significantly smaller during normal times and that it increases during scheduled announcements.

4.1.1. Earnings announcement premium

We wanted to ask the fund managers if they were aware of the earnings announcement premium and what their views are on this phenomenon and its existence. Earnings announcement premiums and trading volumes ahead of the announcements have also been documented by Frazzini and Lamont (2007). An interesting finding from our interviews was that few managers knew about the premium and that the majority questioned its legitimacy. However, many agreed on the fact that much of the returns happen around the quarterly reports.

Lars Söderfjell at Ålandsbanken said that sometimes one might notice that the expectations in the market are low ahead of an earnings announcement from analysts and other players in the market, hence in case of a bad earnings announcement, one should already have understood to do a trade ahead of the announcement since most players in the market were positioned for a bad outcome. However, he argues that this goes both ways and then it could be a case to earn the premium if expectations are low and the price increase has not happened in the share before the announcement.

Mattias Nilsson at Handelsbanken Fonder believed much of the returns happen around a quarterly report, and if you reduce your position, then you will not get the return that you were looking for. Hence, he agreed with the findings from the paper by DiMaggio et al. (2023) who finds the increased risk-return tradeoff around earnings announcements. He also mentioned that if the market can figure out that it will be a good report, then a lot of the movement will take place before the report. However, if not much has happened in the course, it could be a real surprise in the numbers on the day of the report, especially in companies that normally make a lot of the return on reporting occasions or that are illiquid. According to Mattias Nilsson, this behavior can also change over time with different market characteristics and can be differently strong or weak in different periods.

Jannis Kitsakis at AP4 was not aware of the earnings announcement premium.

Mathias Svensson at Keel Capital was not aware of the earnings announcement premium either but commented that it was not unreasonable that it exists since there are a lot of movements around quarterly earnings reports.

Marcus Rylander at Swedbank Robur was also not aware of this earnings announcement premium but mentioned that many that invest in momentum look at more than just the stock price momentum. They look, among others, on revision momentum and profit momentum, which is more fundamental, and in a bull market, revisions of the companies are normally made upwards and vice versa. When trading, investors take into consideration the consensus' expectations and if the report will be better or worse, therefore he thinks that a premium or discount over earnings announcements will exist.

The anonymous fund manager that we interviewed was not aware of the earnings announcement premium. However, he reasoned that the premium could go in both ways, that you might get an increased or decreased risk-return payoff ahead of the announcement.

For Tommi Saukkoriipi at SEB Fonder, the earnings announcement premium was something new for him that he was not aware of previously. He, however, agreed that it might exist, but that it is possible to find a lot of desired correlations in the stock market with some data mining, such as that the stock market is a "winter sport". If it also was statistically proven, he argues, then the market should have arbitraged away this premium a long time ago. Rather he argued, high volumes around reports results in the broker earning the money.

Stefan Sundblom at Swedbank Robur believed that the premium could exist since there is a lot of speculation ahead of reports. However, the companies that he invests in, which are microcaps, have a lot of the transactions directly after the reports because of more liquidity in the market.

Christoffer Johansson at Naventi Fonder recognized the pattern of an earnings announcement premium and thought that it is logical that it exists since there is more "buzz" from the media ahead of the earnings reports. He also argued that most companies are guiding somewhat conservatively ahead of the reports because they do not want to have negative surprises and to come up with something better than what they have guided for. Hence, he thought that the premium might exist because of lower expectations in the market and that the companies, because of their guidance, will exceed consensus expectations.

4.1.2. Other macroeconomic announcement premiums

We also wanted to ask the fund managers if they knew about the macroeconomic announcement premium and how they deal with the announcements. Announcement premiums have been documented ahead of different scheduled macroeconomic announcements such as FOMC meetings (Lucca and Moench, 2014). As with the earnings announcement premium, most of the fund managers were not aware of this premium. However, most agreed that they do not try to predict the outcome of the announcements and that the interest rate announcements have the largest effect on the market.

Lars Söderfjell at Ålandsbanken argued that an expectation is often already built up ahead of a macroeconomic announcement of what seems like a reasonable outcome. Also, macroeconomic announcements are of less importance for them at Ålandsbanken, since there can be an underlying risk in a certain sector because of for example interest rates, but what is the most important is the guidance from the companies in connection with the earnings announcements, which is the main event risk.

Mattias Nilsson at Handelsbanken Fonder meant that a macroeconomic announcement can affect different sectors differently. It can also vary over time if a certain macroeconomic announcement is of importance or not, sometimes it can be a lot of focus on inflation data and other times on employment data. However, there might be periods when the macroeconomic announcement is not of great importance to the market. Instead, a quarterly earnings report for a company is always relevant. Mattias Nilsson argued that the main macroeconomic announcement that is always relevant is the interest rate announcements which cause changes in the market because of changed risk-taking. He also mentioned that all other scheduled events that are known about in advance such as index changes and expected flows, like PPM money in Sweden, are of importance.

Marcus Rylander at Swedbank Robur argued, like Mattias Nilsson at Handelsbanken Fonder, that the effect from macroeconomic events is very linked to different sectors, e.g., FOMC meetings and the interest rate changes during this year have played out well for banks since they have earned interest that did not exist before, while it has increased the leverage effect for real estate companies that have decreased a lot in value. The market has likely become more short-term focused and depends a lot on investor sentiment, not on the companies themselves. He does not try to predict the outcome of the announcements, just about his portfolio companies.

In the funds that Tommi Saukkoriipi at SEB Fonder manages, they do not try to expect or focus on macroeconomic events to create value from them. They are aware of updates and consider them since the events create volatility in the market, but the events are not crucial for their portfolios and returns.

Mathias Svensson at Keel Capital argued that it is impossible to have an opinion about the macroeconomic events and that most of the macro data are just noise that has a big impact on the direction of the market in the short-term, but also perhaps on intra-market movements. E.g., how well Sweden competes with the EU, which is a rotation in the market that can get extreme around macro numbers. However, he mentioned that they have no more ability than others to predict what it will be and to have an idea of how the market will move after the announcement.

Jannis Kitsakis at AP4, who was not aware of the premium, argued that the possible return is more dependent on how the market has developed before the announcement. To be tactical and decrease the risk if you have been paid for it, you might sell off shares to be proactive. He also mentioned that they have the positions that they want considering that an event is coming, and they rather react to the announcement since the market acts on information when it is available since you have greater knowledge then.

The anonymous fund manager that we interviewed was not aware of the macroeconomic announcement premium but argued that if you take an active position in something uncertain, you should get paid for it since you have taken the risk. But to what extent you would get paid for taking that risk, he was unsure.

4.1.3. Using a strategy to exploit the premium

Since few of the fund managers knew about the earnings announcement premium and the macroeconomic announcement premium, we wanted to ask them if they thought that the strategy proposed by DiMaggio et al. (2023) that on average yields 75 bps (of which 19 bps on the earnings announcement day) would be viable to use. None of the fund managers thought that the strategy of buying shares in announcing stocks 10 days before the earnings announcement and then selling them on the day of the announcement would work on its own. Rather it would be necessary to add another extension or a filter to complement the strategy to make it more robust and see how it works in different market environments. Most fund managers have a horizon of a few years on their holdings, hence a strategy like this would not be of interest to their mutual funds since it would incur transaction costs and likely affect the price of the stocks.

Lars Söderfjell at Ålandsbanken doubted that a strategy like this would work since what matters is how expectations look ahead of the earnings announcement and how the companies communicate with the market. Rather he said that a potential strategy would be to buy stocks that have a track record of beating the consensus expectations by a certain margin and shorting the stocks that tend to miss the consensus expectations. He further argued that a strategy would need to consider the consensus expectations and the price development ahead of the earnings announcement. Many other fund managers that we interviewed also argued that it would not be sufficient to use the proposed strategy by DiMaggio et al. (2023), rather it would be needed to add another filter to make it usable.

Mattias Nilsson at Handelsbanken Fonder thought that it would be a viable strategy, but adding a filter would be necessary to increase the likelihood of seeing a good report from the company. Such a filter could for example be to buy companies who have exceeded the consensus' expectations in the last two quarters to be surer of a report from the company that would beat expectations and hence render a positive return on the announcement day. Since the funds we interviewed were more long-term oriented in their investments, the strategy that the paper by DiMaggio et al. (2023) found was too short-term.

Erik Sprinchorn at TIN Fonder said that it is not a strategy that they would use, since it is too short-term for their investment philosophy. However, he thought that it could be a viable strategy for event-driven hedge funds, but the strategy would work differently in different market environments, so it would be more of a question of the market environment and not a long-term working investment strategy.

Christoffer Johansson at Naventi Fonder was also skeptical of the strategy over time if it would work since it could maybe work in one type of market environment when there is an underlying momentum driving the market in a straight line and trend, but not in another market environment. As other fund managers reasoned, it would be necessary to complement this strategy for it to work, e.g., by looking more deeply at how it works in different market environments. According to Christoffer Johansson, it is enough to lose one time to lose your investors and it is not worth taking that risk since it is harder to attract new capital than it is to maintain capital already invested in the fund.

Mathias Svensson at Keel Capital was not sure if this was a viable strategy to use.

Jannis Kitsakis at AP4 was not convinced that the strategy would work since it in practice would be very expensive with transaction costs and that you would be a large player in some companies so that you influence them too much when you purchase shares in the company and then when you sell the shares. Also, he mentioned that the strategy might not work for 2 years, but then it could work for the next 5 years, so it is very dependent on the market conditions.

The anonymous fund manager thought that working with such a strategy would be viable, but then it had to be the main strategy of the fund. His fund cannot steer towards such a strategy, but they can act ahead of earnings announcements and on the announcement day depending on the report but doing it with the entire fund would not be possible because they have not sold that kind of product to their investors. In practice though he argued that it can be difficult since a fund with billions of capital in AUM likely would create movements in illiquid stocks and transaction costs could make up a lot of the potential profit, which are not considered in academic papers.

Stefan Sundblom at Swedbank Robur thought that the strategy would depend on the liquidity in the market, but that it could be viable to use it for companies with good liquidity. The microcap companies that he invests in often have bad liquidity ahead of earnings announcements which makes it hard to take a position according to the strategy. However, if the strategy is proven to work he argued that the opportunity should be arbitraged away since everyone would take advantage of the arbitrage.

4.2. Institutions are reluctant to buy ahead of announcements

4.2.1. Earnings announcement

We wanted to ask the fund managers if they were reluctant to increase exposure to stocks ahead of earnings announcements. To our big surprise, most fund managers mentioned that they do not have any trading strategies ahead of earnings announcements, contradicting the evidence found by DiMaggio et al. (2023) and that they are long-term investors and hence do not do short-term trades. However, a few managers described a tendency of being reluctant to buy ahead of earnings announcements and several mentioned that fund managers in the industry try to decrease the risk ahead of earnings announcements because of nervousness or previously bad performance and hence do not buy stocks before an announcement. Only one fund manager believed that they on average reduced their exposure to stocks ahead of earnings announcements.

Christoffer Johansson at Naventi Fonder explained that they do not have a trading strategy around earnings announcements but that they are probably net sellers ahead of earnings announcements and hence more reluctant to buy. They can reduce their exposure ahead of an earnings announcement to reduce risk in certain situations such as if the stock has performed well recently. He explained that this has to do with his investor base being mostly made of pension money which is concerned about having too much volatility. This is also one of the main concerns that he had and hence they were more prone to lowering the risk ahead of earnings announcements.

The anonymous fund manager stated that they did not have any specific trading strategies around earnings announcements other than rebalancing, however, he acknowledged that they sometimes increase or reduce their exposure ahead of the earnings announcement based on their prediction of the outcome, even though they are focused on long-term results.

Marcus Rylander at Swedbank Robur said that he rather trades after the earnings announcement based on fundamental analysis than doing it before. Sometimes he can reduce exposure ahead of the earnings announcements to limit the downside risk while still participating in the upside. He explained that this is driven by risk analysis on the fund level.

Stefan Sundblom, also at Swedbank Robur, agreed with Marcus Rylander and said that he does not trade before earnings announcements, but rather mostly after them. This is because there is often better liquidity in the microcap stocks that he invests in after the earnings announcements. The liquidity was hence a concern for Stefan Sundblom when trading and it decides when he can take an entry or exit in a company, since otherwise it is easy to affect the price of the stocks.

Lars Söderfjell at Ålandsbanken on the other hand was more active regarding short-term trading and said that the smaller size of their fund makes them flexible in that manner. With companies that are hard to predict or when you have concerns about the outcome of the earnings announcement he can reduce exposure ahead of the announcement, and potentially increase exposure after the announcement based on the results. He however stated that he rather sells after the announcement than before since their view is to "call" the earnings announcement and own the stock over the announcement. He said that there is an event risk around earnings announcements where large price movements can be seen and that as a fund manager, one wants to limit the volatility in returns. A concern that he had was regarding the liquidity in certain stocks since if they step off, it can take time to get back into the stocks and they might affect the price of the stocks as well.

Erik Sprinchorn at TIN Fonder did not have any trading strategies ahead of an earnings announcement, he however expressed an even larger withstand from short-term trading as they do not try to make any detailed predictions of the outcome of earnings announcements. They rather try to act like an investment company and evaluate the changes to their investment thesis after the announcement. Erik Sprinchorn however testified that he knows of other fund managers that engage in short-term nudging ahead of earnings reports and are reluctant to buy and rather reduce exposure due to nervousness.

Tommi Saukkoriipi at SEB Fonder stated that he was not either very trading oriented and that trading is not where his fund creates value, and therefore does not do many trades ahead of earnings announcements. He acknowledged that the size of their fund made it hard to make short-term trades, however, he also said that he was not doing many trades even when the fund had a smaller AUM. Tommi Saukkoriipi stated that he is not surprised that fund managers are reluctant to buy ahead of earnings announcements if they are worried and have had a rough recent performance.

Mattias Nilsson at Handelsbanken Fonder did not trade more around earnings announcements either, but he did also observe that some managers are reluctant to buy and decrease their exposure before earnings announcements because of uncertainty and not wanting to make a mistake. Fear of receiving negative publicity if the fund is a major shareholder in a company that misses expectations motivates selling before the announcement, even if it is at the expense of returns. He also argues that a less secure investor base is a key driver for reducing uncertainty before announcements as funds with a long-term stable investor base can take more bets and not worry about short-term performance. A main concern that he has is that he would lose relative performance if the earnings announcement does not go his way since he as a fund manager wants to beat the index and be better than his competition. Mattias Nilsson also argued that personal risk preference determines whether to be reluctant to buy and reduce exposure to announcing stocks and that the risk appetite of fund managers likely decreases with age.

Mathias Svensson at Keel Capital did not make any special trades around earnings announcements either and believed that funds may reduce their exposure to announcing stocks to reduce risk and added that this is especially the case for funds with many holdings who do not have a great conviction over every investment case.

Jannis Kitsakis at AP4 said that he does not make trades due to announcement events but rather acts on information releases, meaning that the positions can be adjusted after the announcement. He however believed that short-term trading around earnings announcements, including a reluctant buy behavior and reducing exposure ahead of the announcement, could be a phenomenon in the industry dominated by hedge funds and day traders and to some extent long-only funds wanting to reduce risk.

4.2.2. Other macroeconomic announcements

We also wanted to ask the fund managers if they were reluctant to increase exposure to stocks ahead of macroeconomic announcements. The managers testified to on average trading more after the macroeconomic announcements than before and the consensus was that short-term trading around such announcements is outside of their strategy. Some evidence was however provided of changed trading behavior around macroeconomic announcements where some managers traded less around them.

Lars Söderfjell at Ålandsbanken said that they normally hold their planned trades until after a major macro announcement to wait for the numbers before doing any trades to avoid any big shocks in the market. Sometimes it can be a big uncertainty in the market and hence they prefer to wait until after the numbers have been released.

Mattias Nilsson at Handelsbanken Fonder testified that just like with the earnings announcements, managers can sometimes reduce uncertainty ahead of macroeconomic announcements by reducing exposure to some stocks heavily driven by, for example, interest rates.

Erik Sprinchorn at TIN Fonder made no trades around macro announcements and reasoned that it would only be a waste of time trying to predict interest rates for example since they are exposed to them regardless of the outcome of the announcement.

Marcus Rylander at Swedbank Robur also agreed that trying to predict the outcome of macroeconomic announcements is a waste of time but the risk needs to be taken into consideration. He normally trades after the announcements than before to be certain of the outcome of the announcement.

The same was for his colleague at Swedbank Robur, Stefan Sundblom, who rather trades after the macroeconomic announcements since it is hard to predict the outcome of them. He however takes into consideration the announcements and adjusts his positions a bit after the macroeconomic events.

Tommi Saukkoriipi at SEB Fonder also emphasized that he is not expected to create value by forecasting macroeconomic news and that these events are not the most crucial thing for their portfolio. He is aware of the updates but does not bet on a certain outcome.

Mathias Svensson at Keel Capital said that they were not very trading oriented overall and that their trading around these events does not differ from their trading during any other period of the year.

Jannis Kitsakis at AP4 traded even less around macroeconomic announcements and explained that it is rather a question of whether to get out of the market or not, which is not in their strategy. However, if the market has gone up a lot in a short time and they have been paid for taking a risk, then they can sell a little bit on the margin to be proactive.

The anonymous fund manager also agreed on being long-term focused and not doing many short-term trades around such events since they do not have a strategy for it.

4.2.3. Factors affecting trading around event announcements

To understand what factors that might drive reluctant buy exposure for announcing stocks as proposed by DiMaggio et al. (2023), we wanted to ask the fund managers what factors other than fund outflow risk, that is proposed by the same authors, are considered when trading, such as personal career or institutional investor influence. Several fund managers testified that career risk is a factor that affects trading behaviors in the industry and that this is driven by the risk of negative publicity. In times of distress or uncertainty fund managers may protect against downside risks in the best interest of their personal career which can take the form of being reluctant to buy or reducing exposure to announcing stocks. Fund investor influence does however not seem to be affecting everyday trading.

Lars Söderfjell said that fund performance on a risk-adjusted basis is the only driver of their decisions which in turn drives more inflows and indirectly more wealth and a better career for them. He however also stated that he does not want to make too large bets and that it is particularly true over earnings announcements where one does not want to have excessive positions. Further, he said that their larger investors had no influence on their decisions, but rather vote with their feet and leave the fund if they are not satisfied.

Erik Sprinchorn at TIN Fonder had a similar view with his own trades regarding his personal career and believed that being careful about your career and constantly protecting the downside to not make any mistakes could never lead to the fund overperforming. He believed however that career risk and crooked incentives are a large factor among fund managers in the industry that motivates protecting any downside risk over earnings announcements. Erik Sprinchorn further said that investor influence is not as big a factor for them as their fund is only made of retail investors and hence does not have any larger institutional investors.

Marcus Rylander at Swedbank Robur commented that their investment base consists of retail investors and pension funds that do not typically interfere with their trading. He also has a risk mandate which he has not exercised that much since it is more of a personal decision on how much of it that he wants to exercise.

Tommi Saukkoriipi at SEB Fonder said that neither institutional nor retail investors interfere with their trading but do have opinions on ESG matters such as not wanting to invest in weapons which SEB Fonder follows. Tommi Saukkoriipi also believed that personal career factors can lead to de-risking ahead of earnings announcements in the industry but did not act in this manner himself.

Mathias Svensson at Keel Capital also said that investors do not influence their trades other than restricting certain industries and stocks from an ESG perspective.

Christoffer Johansson at Naventi Fonder said that their investors, who mostly come from pension money, are concerned about having too much volatility. The investor base wants a calm journey and therefore Christoffer Johansson does not necessarily have to chase the last percent of return if he does not have enough conviction and therefore trades more carefully around earnings announcements. He also argued that they are punished more for having bad performance than they are praised for having good performance because of this factor.

Stefan Sundblom at Swedbank Robur mentioned that his fund investors normally are not interested in the details ahead of event announcements. However, he said that he can see fear in the market of being exposed in the media for trading decisions which can make you think of the decisions that you are about to take. For him though, the most important thing is the return to the fund investors.

Mattias Nilsson at Handelsbanken Fonder argued that fund performance is ultimately what drives career risk and that returns are the primary focus. He did however add that there can be a risk of negative publicity both for the fund and for the fund manager if the fund has taken a bet on a company that negatively surprises on quarterly earnings and that some fund managers are inclined to reduce exposure to announcing stocks in some cases to protect their career. On investor influence, Mattias Nilsson commented that trades sometimes must be motivated to investors but that it does not influence his decisions.

The anonymous fund manager also said that taking risks can lead to appearing a lot in the media if things go wrong, leading to rippling effects when the media starts digging which can create a media storm that has led to people being fired in the industry before. He also said that different fund investors interfere on different levels but that it does not affect their trading.

Jannis Kitsakis at AP4 was in a different situation as they are a pension fund and do not get opinions from investors but mentioned that they are subject to media attention and therefore ask themselves if they should appear on the top 5 or 10 owner list in a company.

4.3. Fund outflows

We wanted to ask the fund managers if they were aware of any fund outflows from their funds if they experienced extreme realizations from the earnings announcement return of individual holdings. Only one fund manager recognized fund outflows due to extreme realizations in their funds while no one considered the potential outflow risk when making trading decisions as proposed by DiMaggio et al. (2023). The remaining fund managers did not recognize this behavior in their funds, but many said that it is a behavior that they think could exist. Rather, they recognized that fund investors, based on news, can react to a certain holding, while most fund investors think of the aggregate return and not the performance of one holding.

The anonymous fund manager stated that hitting several landmines, i.e., holdings that have a significant share price decline, will raise questions and lead to fund outflows. Further, he stated that holdings that significantly differ from their comparing index, as opposed to being smaller under- or overweights, are particularly sensitive as they have a larger impact on the fund performance compared to their index. He believed this is an effect of fund investors having different investment horizons and times of entry into the fund as short-term investors are inclined to switch to another fund or to buy an index fund if the stock underperforms in the short-term. He however emphasized that this did not affect their trading, as trying to minimize this risk by staying close to the index beats the purpose of being an actively managed fund. He added that the outflow risk could be larger for his fund due to them having a more concentrated portfolio of around 25 holdings, compared to other mutual funds with more than 50 holdings.

Marcus Rylander at Swedbank Robur emphasized that the market is often imperfect where fund investors can act on short-term performance rather than long-term fundamental analysis. Even though he mentioned that it might exist a psychological error mechanism, he tries to be aware of this by focusing on the fundamental part of the companies.

Erik Sprinchorn at TIN Fonder agreed with Marcus Rylander and acknowledged that fund investors can be volatile and act on news regarding one individual holding. However, he believed that the outflow argument was far-fetched as the fund outflow effect would be too small to take into consideration, instead, they act in their fund according to what they think is the best for long-term value creation.

Christoffer Johansson at Naventi Fonder argued that they have 60 holdings in their portfolio and that their investors get transparent updates of their portfolio companies, so it is very seldom that an investor gets hung up on one investment since they are more focusing on the total aggregate return than individual holdings.

Tommi Saukkoriipi at SEB Fonder said, as Christoffer Johansson, that his investors rather focus on the total aggregate return and thought that experiencing outflows might be the case for companies managing funds that struck landmines. Rather, Tommi Saukkoriipi had seen surprisingly calm fund flows during both Covid-19 and the war in Europe, mentioning that the most important thing is to deliver returns over index, and as long as you do that, you will not be questioned if one single holding decreases in value.

Lars Söderfjell at Ålandsbanken had never experienced any outflows related to a specific holding. In other funds with high-profile investors that have a fundamentally opposite opinion to the fund manager, he thought that it may cause a fund outflow. It might not be because of the earnings announcement, but rather that the fund manager is taking on too much risk in a certain holding for that investor.

Mattias Nilsson at Handelsbanken Fonder thought that the fund outflows are a limited factor for Swedish mutual “long-only” funds. According to him though, it might be a factor for American funds or hedge funds that have more concentrated portfolios with a few larger institutional investors where a mistake costs more, and one becomes more vigilant about this. Mattias Nilsson however believed that there is an outflow risk from negative publicity.

Mathias Svensson at Keel Capital did not see this risk in his fund either, but he said that it might be a theme in Sweden since many mutual funds are owners of companies that have a big reputational risk because of being controversial and having deplorable reporting. Therefore, they come with a big potential downside and a bad risk-reward of owning these companies.

Stefan Sundblom at Swedbank Robur said that he normally has outflows when stocks are “cheap”, i.e., when they have fallen in price. However, he said that it is only possible to trade the fund once per quarter, so he does not see the behavior that people tend to sell the fund if one holding has performed badly on an earnings announcement.

Jannis Kitsakis at AP4 did not have outflow risks in the same manner as the company is a pension fund, and hence cannot trade inflows and outflows from their fund. By default, they are then a bit more long-term and have a lower turnover ratio in their fund. He does however believe that the outflow risk can be a factor that is considered by other fund managers.

4.4. Expectations ahead of earnings announcements

We wanted to ask the fund managers what their expectations were ahead of earnings announcements. Many fund managers agreed that it is important to know why you own a stock, to focus on key financial metrics ahead of the earnings announcement and see how the company meets these metrics and if they manage to exceed consensus expectations. These metrics can however change depending on the current state of the market and the economy or depending on the type of company according to the fund managers.

Lars Söderfjell at Ålandsbanken said that they have a fundamental basis as to why they own each company in their portfolio. They study the focal points that they have for each company, e.g., order intake or profitability, and the company's statements going forward. Based on this, their models, and the consensus view of the company, they decide how the company should be valued over time. From this, they look if they believe that the quarter will be better or worse than the market expects. When the company presents its quarterly earnings report, they use the report as an adjustment point to vary the size of the holding and work with risk control. Marcus Rylander at Swedbank Robur agreed with Lars Söderfjell and said that they need to know what companies they own and why they own them. They have an investment thesis and know what they want to see in the reports. What financial metrics they look for and focus on are different for different companies and sectors. Some companies might be in a turn-around phase, and some might be profitable.

The anonymous fund manager focused on order intake, and margins and looked if the companies managed to beat the estimates and have good margins since according to him it is proven that it over time creates a lot of value. With this, and in communication with analysts, they try to estimate the outcome of the earnings announcement. However, the metrics that he focused on varied with regards to the economy where it has lately been important to have a good margin since it is driven by cost expectations and the outcome of price increases.

Stefan Sundblom at Swedbank Robur said that his main focus is on the companies' long-term business models and if they are developing according to them. This has mainly to do with the fact that the companies that he invests in are microcap companies with an average market value of 900 million SEK, which are small and fast-growing. Another important factor for him was the cash flow conversion in each company, especially when the capital markets are weak, and it is hard to raise new money for young and small companies.

Christoffer Johansson at Naventi Fonder said that they manage their funds thematically, which is something that does not change in the short-term. However, this is the first thing they study ahead of the earnings report, and then use Excel models to measure competitive advantages in relation to the valuation. They use consensus estimations in comparison to their estimates and depending on their risk buffer, they could increase exposure over the announcement.

Mattias Nilsson at Handelsbanken Fonder mentioned that the most important thing for him ahead of an earnings announcement is the potential return.

Mathias Svensson at Keel Capital pointed out that his expectations are different for different types of companies. Some companies are very dependent on quarterly profits as they move a lot around the reports, while others are more dependent on comments about the future outlooks for the company. However, they only own companies with low cyclicality and strong balance sheets, so in general, their portfolio companies should not experience such big deviations between the reports. Though, he mentioned that it is hard to have a clear idea of how the companies will move on the quarterly reports as the market has grown a lot more volatile around quarterly reports in the last few years.

Tommi Saukkoriipi at SEB Fonder said that they are long-term investors in their companies and that they do not do short-term trades if the company does what it has communicated, the investors are treated well, the accounting is conservative, and it is possible to motivate the valuation. However, as other fund managers have mentioned the expectations differ between different companies and the market can be more volatile.

Jannis Kitsakis at AP4 said that they do not do any forecasts quarterly. Before a report, it is difficult to know and to claim that you know something because all information is public and there is a consensus picture. So, it is more about a feeling of the market and the economy that drives than by having numbers, one could say by price action.

5. Relation to fund characteristics

In our interview answers, we found indications of a link between fund managers who engaged in more short-term trading and the knowledge of the announcement premiums, where these managers in general had more knowledge and insights about short-term profits and to a larger extent were aware of the announcement premium than managers with strict long-term strategies. The managers who are aware of the premium should also be less reluctant to buy given the improved risk-return trade-off. Thereby, we structure a first hypothesis accordingly:

H1: Fund managers of funds with higher turnover will be more aware of the announcement premiums and less reluctant to buy ahead of announcements

We also found that several fund managers who mainly invested in smaller market capitalization stocks mentioned stock liquidity as a limitation for short-term trading which, if our first hypothesis is true, would lead to less knowledge about the announcement premiums:

H2: Fund managers of funds with the majority of the investments in stocks with larger market capitalizations will be more aware of the announcement premiums and less reluctant to buy ahead of announcements

In this section, we relate findings in our interviews to fund characteristics to find support for our two hypotheses.

Table 2

Fund characteristics

	High Turnover >30%	**Medium Turnover 30%-20%**	**Low Turnover <20%**
Large cap	Ålandsbanken Norden Aktie, Handelsbanken Sverige Tema, Naventi Offensiv Flex	SEB Sverige Fond	
Medium Cap		Anonymous Fund	TIN Ny Teknik[4]
Small Cap		Swedbank Robur Småbolag Norden	Swedbank Robur Microcap

Table 2 categorizes each fund based on the market capitalization of the companies that most of their investments are in, categorized as small, medium, and large, and their fund turnover, defined as the value of the funds' trades in relation to the average assets under management in the last 12 months ending December 2022.

5.1. Knowledge and interest in earnings announcement premium

Table 3

Fund characteristics and knowledge about announcement premiums

	High Turnover >30%	**Medium Turnover 30%-20%**	**Low Turnover <20%**
Large cap	Not aware, Aware, Aware	Not aware	
Medium Cap		Not aware	Not aware
Small Cap		Not aware	Not aware

[4] Turnover accounts for the LTM ending Q2 2022

In this section, we compare the fund manager's knowledge about the announcement premium with the fund turnover and market capitalization of the companies they are invested in. All fund managers interviewed managed long-only funds, testifying to having a long-term strategy and consensus was that short-term trading was not in their main strategy. However, various degrees of short-term activities and interest were expressed in the interviews. In Table 3, we categorize their knowledge about the announcement premium into two categories, where “Aware” represents believing or recognizing that there are increased returns ahead of earnings or macroeconomic announcements, and “Not aware” represents not knowing that there is a premium or questioning its legitimacy. This firstly shows that two out of three funds with the highest turnover were aware of increased returns ahead of announcements, while the funds with medium and low turnover, engaging in fewer trades, were not aware. This provides some support to our first hypothesis that the funds with a strict long-term investing theory are less aware of the short-term premium than the funds that include more short-term activities in their strategy. Secondly, two out of four funds that mainly invest in large cap stocks were aware of the premium, while none of the medium and small cap investors were aware. This somewhat supports our second hypothesis that funds that invest in stocks with less market capitalization with lower liquidity and the ability to trade are less aware of the premium.

5.2. Reluctance to buy ahead of announcements

Table 4

Fund characteristics and reluctance to buy ahead of announcements

	High Turnover >30%	**Medium Turnover 30%-20%**	**Low Turnover <20%**
Large cap	Reluctant, Not reluctant, Reluctant	Not reluctant	
Medium Cap		Not reluctant	Not reluctant
Small Cap		Reluctant	Reluctant

In this section, we compare the fund managers who testified to being reluctant to buy ahead of announcements with the funds' turnover and market capitalization of the stocks they are invested in. The answers are more scattered here providing no evidence that supports our first hypothesis, that funds with higher turnover have more knowledge about the premium and are therefore more inclined to buy, or our second hypothesis, that funds that invest in smaller market capitalization stocks that have less liquidity are more reluctant to buy because of that.

6. Discussion

In this section, we present our discussion based on the research questions outlined in the introduction.

(i) Are the fund managers aware of the announcement premiums?

Few of the fund managers were aware of the earnings announcement premium and even fewer of the macroeconomic announcement premium which both have evidence supported by several authors (Frazzini and Lamont (2007) for earnings announcements, Lucca and Moench (2014) for macroeconomic announcements). Our findings thereby suggest that fund managers of long-only funds are not aware of the premiums and question their legitimacy, which could be in line with findings by Heitz, Narayanamoorthy, and Zekhnini (2020) who show that earnings announcement premiums have disappeared from the US markets since 2004, or that the announcement premiums have flown over the radar for the managers.

Some evidence indicating that funds with more active short-term trading strategies and investors in larger market capitalization stocks are more aware of the premiums is found. The two managers that were aware of the premium had funds with relatively large turnover, investing in mainly large-cap stocks. Funds with strict long-term strategies, such as Erik Sprinchorn who engaged in almost no short-term trades and expressed strong opinions on it being a waste of time and resources for their fund, are less interested in short-term strategies and therefore potentially less aware of the premiums. With the same argument, funds invested in stocks with small market capitalizations are subject to liquidity limitations in short-term trading, and therefore potentially less knowledgeable of the premiums.

The fact that few fund managers were aware of the announcement premiums can mainly be because arbitrage opportunities in the market normally are exploited, and hence that this kind of theory is not considered by the fund managers since it will vanish and be arbitraged away when people start exploiting it. Or, as proven by Heitz, Narayanamoorthy, and Zekhnini (2020), the premium no longer exists. It can also be because it is hard to see a general pattern of the companies that are sold the most have the largest premiums since there are large movements around mostly earnings announcements but also macroeconomic announcements and hence it can be highly dependent on the market environment and market characteristics. In a bull market, it is more likely that analysts make upward revisions which could further spur a premium than in a bear market where it is more likely for analysts to do downward revisions, according to Marcus Rylander at Swedbank. Also, some managers mentioned that companies are guiding conservatively ahead of reports. This is known in the market but may not be recognized as a premium to earn ahead of reports. Low consensus expectations that are beaten could be another reason, but not considered a premium to exploit ahead of announcements. Many fund managers were not focusing on macroeconomic events and since it affects different sectors in different ways and what type of macroeconomic event that will affect the market will also vary over time, it can therefore be hard to see a pattern of the premium. Hence, there seems to be no need to in a diversified mutual long-only fund try to predict or consider the macroeconomic announcements since it will affect sectors differently.

Many of the fund managers thought that implementing a strategy that would exploit this premium would be viable. However, most of them argued that the strategy would not work on its own, rather it would need to be complemented by another filter or added with a new extension to make it more robust and see how it works in different market environments. Also, they argued that the strategy would not work in their funds since it would be too short-term and trade-intensive in practice, and incur too high transaction costs that would eat up a large portion of the profits for a long-only fund.

A reason though to not implement this strategy to earn up to 75 bps per event announcement, disregarding trade intensity and transaction costs, could be because many of the mutual funds that we have interviewed have continuous monthly inflows to their funds and a steady AUM with few realized outflows. Hence, the funds already have strategies that work to attract and maintain capital on which they earn recurring fees each year. As mentioned by Christoffer Johansson at Naventi Fonder it is harder for the fund to attract new capital than maintaining already invested capital. Therefore, changing the funds' strategies to try to earn this premium would likely be taking on too much risk, considering the risk-return that the fund managers would earn against losing some of their larger investors' money. It could also not be in the interest of the mutual fund investors to use a strategy like this as some wish a calmer journey with less volatility and not chasing the last percentage points of return. Also, buying and selling shares for short-term trading purposes in stocks requires great market liquidity in the listed companies. The fund managers would likely move the prices too much in less liquid stocks. For mutual funds, it can also be a problem trading and managing liquidity since it is regulated how much they can have in cash balance. Lastly, the strategy might work better in certain market conditions than others with an underlying momentum driving the market, and hence to time the right moment could be hard for mutual funds with a long-term investment strategy.

(ii) Do the fund managers decrease their exposure ahead of announcements?

Several fund managers testified to having a behavior of being reluctant to buy ahead of earnings announcements and several also believed that similar behavior exists among other fund managers in the industry. Some evidence of being reluctant to buy ahead of macroeconomic announcements was also found, however, most fund managers expressed unchanged trading behavior ahead of these announcements. This supports the findings of Maggio et al. (2023) that showed decreased exposure to announcing stocks through reluctance to buy. Relating to the theories on the emergence of the announcement premiums, our findings support the argument that the announcement premiums emerge because of institutions reducing exposure, made by Maggio et al. (2023).

All fund managers managed long-only funds and thereby consensus was that short-term trading was not in their main strategy. Some managers did however engage in more short-term trading, including trading over earnings announcements. When asked about executed trades one fund manager believed their firm was on average sellers ahead of earnings announcements, while the other managers were uncertain or believed they were on average buyers ahead of earnings announcements.

The reluctance to buy ahead of the earnings announcement was expressed by several managers to reduce downside risk. In some cases, this was expressed as based on a risk analysis on the fund level to reduce the downside while still participating in the upside. Two fund managers described selling ahead of the earnings announcements to reduce volatility in the returns as preferred by their investor base. Reputational risk, described as being a large owner in a stock with significant decline, was mentioned by several managers as a motive for being reluctant to buy or inclined to sell ahead of announcements. Career risk was mentioned by several fund managers as a motive for reducing exposure ahead of earnings announcements and reputational risk was also described as a career risk. Several fund managers agreed that reducing exposure ahead of earnings announcements is likely to affect performance negatively. Therefore, the phenomena seem to be the cause of a mixture of reasons: a calculated decision based on a risk-return analysis, which is a faulty logic given the improved risk-reward over earnings announcement found by Maggio et al. (2023), and nervousness around poor fund performance leading to fund outflows or career consequences.

No evidence was however found of a link between fund turnover or invested stock market capitalization and reluctance to buy ahead of announcements, suggesting that funds with more short-term trading behavior and better stock liquidity who are potentially more aware of the premiums are not less reluctant to buy ahead of announcements.

(iii) Do the fund managers experience outflows related to declines in individual holdings?

None of the fund managers said that they experienced outflows in their funds if they experienced extreme realizations of the earnings announcement return of individual holdings, as stated by DiMaggio et al. (2023). This reasoning by the fund managers could be true, however, it is also likely that it could be because recognizing outflows in their funds could harm their reputation. To answer this question properly, it would be necessary to ask retail and institutional investors how they react to individual holdings in one mutual fund showing extreme realizations in one individual holding around earnings announcements. From the interviews with the fund managers however, we found that most of them protect the downside risk ahead of reports since they are reluctant to buy and show behaviors to be willing to sell ahead of reports to decrease the risk, which is in line with the findings by DiMaggio et al. (2023), who show that decreased risk-taking ahead of earnings announcements could be seen as linked to fear of fund outflows. It also supports the findings by Kaniel et al. (2012) who find that mutual funds might be averse to trading too aggressively before earnings announcements for fear of fund outflows. This can mainly be due to the fact, recognized by the fund managers, that fund investors, based on news, can react to a certain individual holding which further supports the argument by DiMaggio et al. (2023) that extreme realizations in one individual holding can cause fund outflows, and hence the fund managers are more cautious in their trading ahead of earnings announcements.

The risk of outflows could also be linked to the investor base in each mutual fund. According to Erik Sprinchorn at TIN Fonder, the outflow effect in their fund would be too small to take into consideration. This can be because TIN Fonder only has retail capital and no institutional capital, hence retail investors will not have invested as much capital as would an institutional investor have. Fund outflows in connection with extreme realizations in one individual holding might be the case for a mutual fund with many institutional investors, as the effect of a large outflow from the fund will be severe and hence taken more into account when trading. However, the fund managers from the larger banks said that outflows are not so vulnerable for them since they have the continuous flow of funds from retail monthly deposits and hence it does not play a big role for them. Several fund managers however addressed that there is a reputational risk around certain stocks and industries that can lead to negative publicity for the fund if the fund holds a large share of the company or exposure to the industry, potentially leading to fund outflows that could be a potential risk that is considered by fund managers while trading. While earnings announcements can spark negative publicity for a stock, several fund managers believed that the reputational risk is not particularly considered around an earnings announcement, but rather a factor to consider overall when investing.

7. Conclusion

This paper studies the emergence of announcement premiums and institutional trading behavior around announcements. This study seeks to examine the recent findings by Maggio et al. (2023) which show evidence of reduced exposure to announcing stocks for institutional investors due to outflow risk causing the announcement premium to emerge. In contrast to much of the literature around the announcement premiums, this study listens to the reasoning of the fund managers by interviewing 10 active Swedish fund managers. The study has three main findings. Firstly, to our surprise, we find that few managers are aware of the announcement premiums and many question its legitimacy when presented with the evidence by Frazzini and Lamont (2007) and Lucca and Moench (2014). Many fund managers however thought that a strategy of buying 10 days before the earnings announcement and then selling on the announcement day to earn the premium would be viable to use if it was complemented by another filter. Such a filter could be to buy companies that tend to exceed consensus expectations. Secondly, we find evidence of fund managers being reluctant to buy ahead of earnings announcements, supporting the findings of Maggio et al (2023). Thirdly, we find that no manager testified to considering fund outflow risks while trading but conclude that given their reluctance to buy ahead of earnings announcements to protect downside risks and with several managers believing that investors are volatile and can sell on a short-term bad performance, outflow risk is considered while trading, also supporting the findings of Maggio et al (2023). In our view, we conclude that these three findings match, and since the fund managers are not aware of the announcement premiums they will not be further incentivized to do trades ahead of earnings- and macroeconomic announcements. This, in conjunction with the outflow risk which we found, is considered by the fund managers, supports the finding of reluctance to buy ahead of earnings announcements to protect downside risk and poor fund performance, which further spur the fact that the announcement premiums emerge because of institutions reducing exposure.

There are several interesting areas for future research related to this topic. For example, it would be interesting to do the same study as DiMaggio et al. (2023) but on Swedish stocks to see if the premium exists or not and if fund outflows in mutual funds are observed as they find in American stocks. Also, it could be interesting to do the same study as we have conducted but on Swedish hedge funds and more quantitatively based funds that have more short-term trading strategies since we have focused on long-only mutual funds with long-term strategies. Lastly, as commented by several fund managers throughout our interviews, it would be interesting to study the proposed trading strategy in detail and see how it works in different market environments, and if different kinds of filters would be added to complement the strategy.

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9. Appendix

9.1 Transcripts

9.1.1 Erik Sprinchorn

Anton: The study found that funds tend to reduce exposure to announcing stocks.

Erik: I thought that was interesting as I cannot understand how they would reason. I think that if one were to act like this, you would have to be more shortsighted and more nervous about benchmarks, working more actively with over- and underweights. It is the opposite of how we work.

Thomas: You already answered our first question on email, whether or not you do trades over earnings announcements and you answered no. Do you make any other type of trades around earnings announcements?

Erik: Very little, we instead try to buy into good companies for a good price and then act more like an investment company rather than a fund.

Thomas: Do you try to predict the outcome of earnings announcements?

Erik: We are very skeptical about forecasts in general and about making our own forecasts because we think it's a waste of time. History predicts about 70% of a stock's future and how the performance of the company is today is valuable information. We think more in terms of future directions and think that detailed forecasts are partly a waste of time and partly mentally dangerous because you frame yourself within numbers and some intrinsic value. We try to look at a company's products, management and how it is run and get an understanding of what need they are fulfilling, if the need will grow, can they realize something, can the company double and within what timeframe.

Thomas: When you have decided to increase or reduce exposure of a stock, is there any particular time where you tend to make these trades, for example when liquidity in the stock is higher?

Erik: Earnings announcement can be a time where the liquidity is increased. We focus on small to medium sized Nordic companies and the liquidity in these stocks are not always great. In these situations, earnings announcements can be a good time to trade, but that goes for both buying and selling.

Anton: So, you do not have any strategy in trading over earnings announcements, do you know of any other fund managers who do?

Erik: I have seen it done, yes.

Thomas: Is this a prediction of the outcome of the earnings announcement or is it something else?

Erik: I do not want to try and guess, but my interpretation is that it is rather because of nervousness.

Anton: And nervousness, is that because of some concerns ahead of the report that the fund manager could have?

Erik: The nervousness can come from a range of sources, it could be that they have talked to a broker who has led them to think the outcome will not be as good as hoped and thereby reduce exposure somewhat or increase for that matter. It is about short-term nudging and that exists out there.

Anton: What expectations do you have for earnings announcements or macro news? Your funds are probably more dependent on interest rate development compared to other funds given your tech focus.

Erik: Yes, that is true. You should focus on what you can impact. We try to focus on what the company says and try to meet with the company after a quarterly report to get more detail on why they have written what they have. It is after a full year report we can scan reports and meet companies and ask what the theme is for the coming year. Interest rates are what they are. We cannot spend time trying to predict rates because we are exposed to them either way. We are not a hedge fund after all.

Anton: Do you have any concerns ahead of earnings announcements? In the article they suggest that the reason for reduced exposure ahead of earnings announcements could be trying to reduce idiosyncratic risk, fund outflows, systematic risk but could also be personal career.

Erik: Career risk is an important factor for all. Crooked incentives are a large factor, but that is probably rather a symptom of something I would say. It might be part of a larger story on how funds are run. If you always protect the downside ahead of reports than you could never create something astonishing and always be mediocre, and then maybe get fired anyway. If you would look at 100 funds of which 15 protect downside regularly, I think the performance of those 15 would be below the average of the other 85. It would be interested to study.

Anton: In regard to fund flow, how much does the opinions of institutional investors affect your trading decisions and how do you communicate with them before and after reports?

Erik: That is one of the reasons why I like our focus on retail investors. I believe we have approximately 250-300 thousand investors, meaning that there are no big voices affecting us. It has both pros and cons, we are traded on a daily basis and many retail investors are very volatile, but it's still better than having a couple of large institutions that can decide to pull out at any time. We cannot have a longer investment horizon than what our investors have, so for us it’s very important to have pension savings, savings for children and to exist on many platforms so that we get investor stability for our long-term perspective.

Thomas: We talked about liquidity around earnings announcements: maintaining liquidity is also a priority for you. Do you make these trades to maintain liquidity at any particular time, for example around announcements?

Erik: There are also regulation requirements. It's not always easy to fulfill them. There is no rule in regard to when we trade. There are unique examples of where we have been able to get rid of a 6% holding in a company in conjunction with an earnings announcement thanks to the increased liquidity, but there are other times where you would have to bleed out the holding over a longer period of time. It is always easier to buy than sell, liquidity is always greater when buying than it is when selling as a rule.

Anton: The article shows that there is an improved risk return over earnings announcements and that investors could potentially earn a premium by buying ahead of the announcement. What do you think of such a strategy?

Erik: For us it's way too short-term, but there are event driven hedge funds that earn money over time and I think both strategies could work (i.e buying and selling) in different market environments, but then it's more about the market environment rather than it being a strategy working long term.

Thomas: The study also found that extreme realizations provide fund outflow risk that could be an explanation for the reduced exposure to announcing stocks, do you think it could be a reason?

Erik: I think that sounds far-fetched. Not even us that are retail focused think about it, the persons selling are such a minimum portion that we can't take that into consideration.

Anton: Do you think it would be different for funds having large institutional investors that potentially sell off?

Erik: I think this is based on the hypothesis that as long as you provide average returns you don’t get fired. I do not believe in that.

9.1.2 Mattias Nilsson

Thomas: Institutions selling can be because of idiosyncratic risk, systematic risk and it can also be fund outflows which is their hypothesis. Are there any other aspects that could be valid? Maybe career risk or investor influence? We thought we'd start by asking if you do any types of trades around earnings announcements?

Mattias: Yes, I kind of see the idea with this last hypothesis that there is outflow risk, but I think that for Swedish funds, or "long funds", it is a limited factor. It may be that this is more of an American phenomenon or that it may have more significance for hedge funds that have slightly more concentrated portfolios. They do not want outflows. I believe much of the return happens around the quarterly report. I've noted the phenomenon as well. People reduce the risk because it feels uncomfortable before the report, and it feels uncomfortable for everyone. It's human nature to reduce the discomfort of not knowing the outcome as much as possible. It's not like I have very strong opinions about all 70 holdings, and if some holdings have received some questionable data points, for example competitors who have come up with something that might go against what I believe, then there is perhaps a point in reducing the exposure because it comes so close to fifty-fifty then it is unnecessary to expose yourself to that. I observe the phenomenon, now I talk about others and what people feel, and they find it unpleasant with this much risk when they don't know what is happening. It is quite common, and I would say and I think it is worth investigating since you miss out on returns, even though you think you are doing something intellectually good, it is in fact not.

Anton: Do you think it might have to do with age (experience)? Is it a more general theme that you are more risk averse the less experience you have?

Mattias: Yes, that's a good question. I would say it is almost the other way around in general, that you are more risk-prone when you are younger than when you are older There's career risk and stuff like that, when you started your career you think tha you have so many years left and then you drag it out a little and you are a little more black and white: either it's good or it's bad. When you get a little older, everything becomes different shades of gray, you understand that it can't be as good as you like because it rarely is, it's not a disaster either. I think it also depends a little on where you work. where you work and the personality type. Some like risk less and think “I don't want to stand out in a negative way and therefore it's quite nice to stay in the middle or to the index” or whatever it may be and then you can do these things that you have highlighted in the report to reduce the exposure to events. If you broadened a bit and took an investment company such as Öresund or Creades, they want to beat the stock market in the long term, and they have strong principals in the form of Mats Qviberg and Sven Hagströmer and they are the ones who are in charge. They have permanent capital and never have to worry about outflows. I mean, I have a really hard time believing that they're slowing down a bit before a quarterly report. They either believe it or they don't. The Swedish fund industry is so incredibly followed, American funds are probably too. You might think that people would like to have the best risk-adjusted return, but it tends to be that “I just don't want to be the worst”.

Anton: I was thinking before a quarterly report, for example when you choose whether to increase in a holding or not, how does your communication work with investors? Can larger institutional investors affect you and how is your communication towards them in regard to your strategy and holdings?

Mattias: I have 70 holdings and it's not like they all mean the same. There's maybe 15 or something that means a little bit more and the investors are well communicated there is changes to those stocks. An investor can be concerned and have opinions on a few stocks, but those investors are generally up to date on these stocks, and I don't feel that I am doing anything in particular to see to those investors. I don't think they go in and look at one particular holding and investigate if I have done some changes. They probably lump it together and look at the total return, deviation and why the outcome is what it is. The discussion occurs after all, investors are interested. “What have you done?”. On the other hand, I don't think they are particularly interested in one quarter. If there is a big movement on the quarterly report, then it comes up. But I don't see myself selling now because in 2 weeks I must justify this, it is more embedded in general as portfolio management. Then there are situations like what recently happened to Alecta. This has gotten a lot of media attention and it is very infected. Many think people should be held responsible. There, it can be a bit tempting, before a quarterly report where you sensed that there could be a lot of information here that could change things both for the better or the worse. I don't want my face in DI on Friday. Then it’s not about what's best in terms of returns, but you just don't want to risk getting hung up in the paper again.

Anton: That has a bit more to do with one's personal career as it mainly focuses on that?

Mattias: Yes, the big driving force, I think, is this feeling of discomfort. This phenomenon probably increases in times of higher volatility. That's when people get scared.

Thomas: Can you reduce exposure to announcing stocks because you are afraid that an investor might pull out if that particular quarterly report was very negative?

Mattias: I still think that it is mostly risk reward that controls behavior of investors, but there is also a phenomenon that certain shares that if the market sniffs out that this report is likely to be good, then a large part of the movement can take place before the report. Then it can be tempting to sell if I think I have already been paid in advance. If not much has happened before the report, then there could be a real surprise in the numbers.

Thomas: So, you mean that you can capture the premium by buying before and then selling the day before?

Mattias: Those are two different things because then you are still looking for the excess return, but you get it in advance. The second thing is that you don't get it in advance, but you get it on the day of the report and there are many situations where all the reward comes on the report day. Many shares work like that, all or very much of the return comes on reporting occasions and then nothing happens in between. Especially in illiquid companies, then you can say that trimming the position the day before the report is intellectually the right thing to do. "No, I don't want to expose myself to increased risk". Some reporting periods are a little calmer and others are messier, and markets changes character over time. This phenomenon is probably stronger and weaker in different markets.

Thomas: We have talked about the earnings announcement, but there are scheduled macroeconomic events such as the labor market in the US, the consumer price index, FOMC meetings. Can you make similar types of trades before such meetings to reduce exposure?

Mattias: Yes, but they become more systematic for a stock investor. An interest rate announcement affects different sectors differently, and it becomes a more systematic risk. There may be periods when not a single person cares about it, and for some companies it is always relevant. You can't get around that, but I'd say it's mainly the interest rate announcements that matter. Now you may only be looking into macro, but all events that you know about in advance can have effect. It can be index changes, expected flows, for example the PPM money in Sweden. They always come on a certain date in December and then people trade around it.

Thomas: Do you think that a strategy where you would buy shares 10 days before the announcement and sell on report day would be a working strategy considering what we have talked about premium and so on?

Mattias: Yes, but I think you need another filter. You want something that makes it more likely that it will be a good report. That's how I think I would have done it. For example, if the last two reports been better than expected.

Anton: Do you have any expectations or concerns regarding quarterly reports?

Mattias: Firstly, I think of the returns, which in length is connected to career risk. But I mainly think about the return. I hope it goes my way, otherwise I could lose a lot of yield. You want to beat the index; you want to be better than your competition and ultimately you want to keep the job. But I don't think that if one trade goes bad, I will be fired. It's not quite like that, but when I managed a hedge fund, the connection to compensation, with the phenomenon of performance fees, was larger. I could almost put kronor in my own wallet on each trade and then it becomes a bit like "if it works, I could earn a lot, but if this goes wrong, this could cost me a lot.". "Am I willing to risk it with this trade?". It became much more connected. But in my current role if the index is up 50% and we are up 20%, then I will probably get fired. So, I think personal financial incentives, career, and competitive comparison factors in.

9.1.3 Marcus Rylander

Thomas: The study finds that funds reduce exposure to announcing stocks, that there is a premium and higher risk reward.

Marcus: I think that different market conditions tend to bring out different psychological trading behaviors from investors. I think when writing a study about this you will have to take into account that people instinctively behave differently in different market environments.

Anton: In regards to reducing exposure to announcing stocks, do you do this or any special trades around announcements?

Marcus: It's important to understand that there are different types of investors and processes. During the ten years when I managed a pure-play quality fund with very few holdings and very clear guidelines on how to trade rationally, I traded less. As a manager of a Nordic, small company fund I have a softer process. I have 70 holdings in the fund making each holding a smaller bet. I am evaluated against the index on a three-to-five-year basis. That is three to five years from a fundamental analysis of the company, and I try to stick to that and minimize the need for a short-term perspective. The short-term is more driven by taking the right amount of risk and handling liquidity. This was a long way to say that you trade both short- and long term, however it is the long-term perspective that is important and it's more of a risk analysis. I tend to trade more after the announcement based on a fundamental analysis, but if I were to reduce my exposure ahead of an announcement this would be because I would own a lot of the share and want to protect the downside while still having upside potential and it is possible that this type of behavior could lead to arbitrage opportunities. The typical psychological error you tend to make is selling the winners too early and buying the losers who do not always perform on the fundamentals and thereby gradually building a fund with worse companies. I think a lot of people make this error. There could exist an element of reducing risk ahead of announcements possibly.

Thomas: What would be the motive of this, could it be your personal career, fund performance or larger fund investors wanting you to reduce the risk?

Marcus: Everyone has different risk-mandates. It's primarily a personal decision based on your investment process on how much of the risk-mandate you want to exercise and there is liquidity aspects of the stock to consider if you are a larger fund, but I would not say it's done on an earnings announcement basis but rather gradually over time. I might not be representative for the masses. I think this very short-term perspective is mostly found in London. To answer the question, we are a large bank that manages retail investor and pension fund money and there is almost never someone who interferes with the short-term and we are evaluated on a 3 to 5 year basis.

Anton: Do you communicate these short-term adjustments to your investors?

Marcus: No. You communicate the larger moves such as if you pick up a new company in the fund, if you have sold the last shares of a stock, if you have steered the fund towards more quality or consumer businesses or IT or things like that.

Anton: Yesterday, for example, the Fed announced interest rate changes and you surely have some positions in, for example, Swedish gaming companies such as Embracer. Do you take these announcements into account?

Marcus: I would have adjusted my holding accordingly if I would have known the outcome of the announcement but unfortunately it surprised the whole market and the large increase in interest rates is a key reason why long-duration and highly levered companies have declined last year, and I had a fair amount of good companies with long-duration. I have worked with quality and growth companies for 13 years, but I have never seen something like this because this interest rate increase is the quickest we have ever seen and the only one that started at zero or negative interest and when interest rates increase, the discount rate increases as well, making the market more short-sighted per definition as profits further in the future are worth less in the DCF theoretically. What has worked last year is playing the duration case, which is acting more short-term, investing in for example materials, banks and also defense companies and oil due to the war, that have performedwell.

Anton: Do you try to predict the outcome of earnings announcements?

Marcus: I cannot predict what will happen with the interest rates and macro. I can try to predict what is going to happen in the companies that I invest in. To answer the initial question: I normally trade more after the announcement than before because I look at what the companies deliver such as cash-conversion, profitable growth, cash flow and balance sheet, adjustments etc. I might be more fundamental than the averager investor and therefore it's natural to trade more after announcements than before. Before the announcement it is more of a guessing game. I think this is in line with most of my colleagues, we are rather fundamentally focused and focus on the long-term.

Thomas: One finding that literature provides is the earnings announcement premium, where buying announcing stocks 10 days before announcement and selling on the announcement day on average yields 75 bps, with 19 bps being provided on the announcement day. It has been argued that this is due to increased idiosyncratic risk but have however later been found that the risk-return tradeoff is increased over earnings announcements which would make this argument flawed.

Marcus: I mainly invest in idiosyncratic risk, that is my concept. I do not see it in the idiosyncratic until after the report when I see how the company actually performed so I am more on the other side and evaluate If I had the right idiosyncratic risk after the announcement. What I think you need to take in consideration is that many that invest in momentum does not just look at stock price momentum but also look at revision momentum and profit momentum that is more fundamental and in a bull market we typically revise the companies upwards and in a bear market, analysts are typically too optimistic and must revise the companies downwards. Therefore, whether it's a bull or bear market will have an impact on whether there is a premium or discount over earnings announcements.

Anton: Have you heard of this premium before?

Marcus: No but I think that companies that deliver greater than what analysts predict and have estimates being revised upwards tend to have increased stock prices after announcements, and vice versa. Selling before announcement to reduce idiosyncratic risk is nothing I have thought about, it's an interesting topic. It might be the case that investors psychologically behave like this, but it is nothing that you really reflect on. You rather think about whether the report will be better or worse than consensus thinks and then possibly have this in the back of your mind.

Anton: Ahead of earnings announcements, what are your expectations and concerns of the announcement?

Marcus: There is a basic rule that is applicable no matter what sectors or concepts you have: you need to know what companies you own and why you own them. Often you have an investment thesis and know what you want to see in the report. What you look at is different for different companies and sectors. It is different depending on your investment thesis but "*know what you own and why you own it"* is important.

Thomas: Another large finding in the paper we have discussed is that extreme realizations can lead to investor outflows from the fund if a holding would decline significantly and this is argued a potential explanation for reduced exposure to announcing stocks by institutional investors. Do you recognize this?

Marcus: The market knows that one should buy when it's cheap and sell when it's expensive but often acts in the opposite way. I do not believe for a second that the market is perfect. I think that the market is almost always imperfect, but maybe not in every stock and the reason for this is that the market cannot handle buying when the stock is cheap and selling when it is expensive but rather reinforces trends. Unfortunately, the actors who allocate money into funds behave the same way. The average fund investor acts like the average stock investor and is too much driven by momentum.

Thomas: And is that something you take into consideration when trading? The theory here is that you reduce exposure to announcing stock to avoid investor outflow.

Marcus: No. If one is aware of this, then one should try to avoid this, but wrong behavior probably occurs. I am aware that a psychological error mechanism exists but that is why I try to stay fundamental.

9.1.4 Lars Söderfjell

Thomas: One prior finding is that fund managers for institutions tend to reduce exposure before quarterly reports. Why do you think this can happen and do you do it yourself? Do you trade in any special way around quarterly reports?

Lars: Yes. There is an event risk with many companies, so you often see quite large price movements in connection with the reports both up and down. What you don't like as a fund manager is having too much volatility in your returns. So clearly there could be some kind of bias, we ask ourselves “do we really have to put so much at risk over this report when we know it's going to move a lot, but not in which direction?”. There are certain companies and industries where you know there is usually more downside than upside. One example is owning a mining company over report, because everyone can read about metal prices and exchange rates and so on. You know that there is an event risk that in some cases is not worth having in the portfolio. It ruins my night's sleep and in the worst case my performance.

Anton: What is an event risk?

Lars: When you have companies that are difficult to predict, for example Ericsson, you are often surprised. You never really know in advance what the odds will be. A project-heavy business is difficult to forecast. In that type of company, you are less inclined to own it over a report and it is easier to sell off a bit of the shares beforehand. At the same time, we think that in some cases we usually rather buy before reports if we believe that a share price has been unjustifiably weak and we have not gotten any signals of negative surprises which can lead to a relief-rally instead. But it must be remembered that we never take positions solely on such things, but it is within out framework to "fine tune" our existing positions. It is very rare that a report makes us change our mind completely about a holding, but it happens if several reports in a row have gone against us.

Thomas: If you make a change in a holding because it is uncertain, perhaps because there is an event risk, can you reduce exposure before the report and then increase it again after?

Lars: You can do it that way. We are "long only", which means that a neutral position for us is not to have zero exposure, then we are in practice very short. It is always relative to the index weight. If we have reduced the exposure before the report and it was good, then we can buy back the holding. It's a transaction cost, but it might be worth taking. It's case by case. We ask ourselves “how do we see the risk of this report: on the upside or the downside, or is it fairly balanced?”

Thomas: Are you only thinking about fund performance or are there other aspects considered as well? Such as personal risk or career risk?

Lars: No, it is always the fund's performance that is the most important. If we have consistently good performance over time, it will lead to customers feeling secure in what we do. Then we'll get more inflows, we'll get rich and have a nice career, so it's all about delivering good risk-adjusted returns. There is always a risk mentality that lies in the background that if we have somehow taken an incorrect macro-bet or underestimated some factor and 75% of our bets are tilted in that direction, then it can be quite expensive. We may not want to have excessive positions ahead of an uncertain reporting season. If you take banks, for example, we fundamentally think the prospects for the bank to make good money over the next 3 to 5 years are quite good, but we are reducing the overweight position, but that does not mean we are shorting the banks.

Anton: How does the communication with your investors work? Does it affect how you invest if you have larger investors who can influence the decisions you make?

Lars: No. Our larger investors vote with their feet, if they don't like our performance and what we do they leave and withdraw their money. It's not something we focus on while trading, but again it goes back to delivering good risk-adjusted returns over time. But it's clear that they also get stressed, just like I get myself, if an investment shows a lot of volatility. Nobody wants too much of that.

Anton: What expectations and concerns do you have before quarterly reports?

Lars: We look at several things, partly because we have our own fundamental basis for owning a share. What are our focal points? It could be order intake and profitability for their mineral business (Metso Outotec) and their statements going forward. Then it is based on our own models of what we think the company will be able to earn and how they should be valued over time. We also take a short-term look at what analysts expect and what the consensus picture look like. Do we think this quarter will be better or worse than the market expects? You might have a slight tendency to take home profits or reduce a decently large exposure before reporting. It also depends very much on the liquidity of a holding and certain things you don't like to touch, so you know that if you step off here it will take some time to get back into some less liquid shares. In other stocks, you know that if I sell 0.5% of this 5% holding, I will be able to get it in an hour tomorrow. It's not hard and I'm not going to move the market with that trade, so things like that will also come into play.

Thomas: And this premium we talked about over the earnings announcement, it has also been found for macroeconomic news that is scheduled such as FOMC meetings, labor market, CPI, etc. Do you make any special trades before such meetings?

Lars: No, we do it quite rarely. We are waiting for the number before we press the button, so there will be no big shock from big numbers like payrolls. Announcements like that have a tendency to affect the market a few months ahead, central bank meetings even more so.

Thomas: Do you think that if you were to have a strategy where you buy ten days before and sell on the announcement day, it could be a working strategy that gives returns over time?

Lars: I doubt it does. You can look at surprise statistics, how much do the companies surprise? It is far from certain that positive earnings surprises will lead to a positive price reaction, what matters is how the expectations look ahead. Rather, I would imagine that strategies could work on companies that have a track record of beating consensus expectations by a certain margin.

Thomas: The study shows that there is a premium and that if you buy 10 days before and sell on the announcement day, you can earn 75 basis-points, of which 19 points are given on the actual report day. There is hence a premium to own over time.

Lars: That also has to do with the type of market you are in. For example the S&P500 from 1999 to 2014, it was a pretty wild time right around -99, but if you look at the period from 2002 to 2014 it was still a fairly decent period on the American market and then you have a positive trend to work with. I think it would be interesting to detrend the premium and see if you got a different outcome in relative terms.

Thomas: A final finding in this study is that individual investors in the fund tend to sell off their holdings in the fund if one holding declines significantly, which means that there is a slightly disproportionate outflow from the fund. What do you think about that? Have you experienced it?

Lars: No, at least not for us and I don't think I've ever actually experienced outflows related to any specific holding in the years that I've been working. I can imagine that in some funds there may be some high-profile investor with a fundamentally opposite opinion to what the fund manager has, and in those cases I can imagine that they then choose to leave. But that should not be centered around earnings announcements.

Thomas: Do you know of any other managers among your industry colleagues who could possibly have this kind of shorter-term trading strategy over earnings announcements?

Lars: I think you should look a little more at the long/short side, i.e. those who have a double mandate. They certainly have views on things like this, but it is rather the case that the larger the fund becomes, the more difficult it is to move in the market and especially in relation to liquidity. I'm not terribly jealous of those who run the big banks' small company funds, which sit with 30, 40 billion in AUM in a market where you have to deal with small and medium-sized companies. Our small company fund is just under 2 billion, it is flexible and we rarely need to take that into account. For them, it is not possible to come out that way and trade around a report that we can do.

9.1.5 Mathias Svensson

Thomas: How do you trade around quarterly reports? Do you recognize the findings in this paper?

Mathias: For our own part, we do not do that (reduce exposure ahead of earnings announcements). We are quite concentrated and quite different from the usual funds. On the long side, we have around 20 holdings and a very long-term horizon. There are stocks that we have owned since we started in 2009 so we don't really have that tendency to do it that way.

Thomas: If I understand it correctly, you do not make special trades around quarterly reports, but you perhaps have a more long-term strategy, what is your strategy?

Mathias: Yes. We have a very long-term horizon in that respect. Then the position sizes can change a little depending on the short-term outlook as well, but it does not have so much to do with the risk you take over a quarterly report. In that case, you may have sold off quite a long way before if we suspect that there may be a couple of weak quarters. It is not the case that we reduce positions in the last 10 days before the report. As we have very large positions and are fairly large owners in many companies as well, we cannot act in the last ten days. I do however think that you are probably right about many other funds and that they act somewhat in that way.

Thomas: What do you think it is due to, how do you recognize this and how do you think they reason?

Mathias: If you think of a large Swedish fund that is quite close to the index, they may not really have a handle on all the hundred companies in their portfolio and if something has performed strongly, then you may be a little worried and reduce a small overweight to have no risk over the report. They don't get paid in the same way for taking risks as we do. We have a performance fee on most the money we have, and we have a fairly concentrated investor base as well. For us, it is important to have done the work on everything we own, and we don't own any companies that we don't have full control of or that we don't want to own. This is not true if it is an index-based fund. There you have a lot of positions that you may not really have any idea about and then you may take them towards neutral exposure before a report to avoid risk.

Anton: What does your investor base look like?

Mathias: We have chosen to have a rather different approach compared to the others and almost only manage institutional capital. We have a few wealthy individuals who have deposited some money with us, but we are not distributed to retail. We have also chosen never to take part in any interviews with newspapers as we do not want any publicity. We currently have most of our capital from large American pension foundations and have quite little capital from Sweden. There are maybe 3 or 4 companies in Sweden who do it the same way.

Anton: How does the communication work with your pension foundations and institutional investors? Do they have any influence on what you do?

Mathias: No, they don't have that, or it's a truth with a modification, you could say. There are some that have certain restrictions regarding, for example, ESG where they have a "restrictive list" of companies that they are not allowed to invest in. Now it is not a big deal for us, but we have some investors who are not allowed to invest in tobacco or arms companies, for example. But it hasn't affected our administration. They are investors like everyone else, they have chosen to come to us for their own reasons.

Thomas: What kind of expectations and concerns do you have before a quarterly report?

Mathias: It is very different for different types of companies. Some companies are very dependent on quarterly profits, as they move a lot around the quarterly reports, and it is not always the profit that matters. It may be other comments that influence. Generally speaking, the companies we own are high-quality companies with low cyclicality and strong balance sheets. So, generally speaking, they shouldn't be affected that much by just one quarterly report and there shouldn't be very big deviations in the reports either. But on the other hand, it has been noticed that the market has grown a lot more volatile around quarterly reports in the last 5 years compared to what it was before. For our part, when we look at the management of the fund, we are also looking for a fairly good portfolio structure so that we do not have too much exposure to similar companies, that is, we have 5 engineering companies. So even though it is a fairly concentrated portfolio, it is diversified in terms of what drives the success of the companies.

Thomas: What we've been talking about is earnings announcements, but what we also want to ask about is about other types of macro events that are scheduled, such as FOMC meetings or the labor market. Do you make any trades around those?

Mathias: It becomes completely impossible to have a strong opinion about it (macroeconomic announcements), but everyone has suddenly become experts on the inflation figure or other macro data that you didn't know existed 9 months ago. I'd say it's noise. It has a big impact on the direction of the market in the short term, but also perhaps intra-market movements. How well Sweden behaves against the EU, or strong balance sheets against weak balance sheets. That kind of rotation gets pretty extreme around macro numbers. We are not more capable than anyone of predicting what it will be, and it is difficult to have an idea of how the market will move after that because there will be other noise that pulls in the opposite direction and then you end up trading too much around it, we try to avoid doing that. We are not that trading intensive, but if you were to look at our trading around these events, it would not differ much from other days. It's more event-driven or if we've met a company we like and done a lot of work on, then we try to enter a position. There are probably more things that govern instead of the numbers.

Anton: When do you usually make your trades during a calendar year and do you take any liquidity aspect into account?

Mathias: It is clear that in connection to big events, i.e., quarterly reports, profit warnings or the like, liquidity comes up and it is possible that you may have made more trades on those days. In some of the companies where we are very large owners, trading when stock liquidity is good becomes a little more important. Generally speaking, we do quite a lot in dark pools where buyers and sellers meet without it being visible in the hand.

Thomas: Do you think a strategy where you buy 10 days before the quarterly report and sell on the day of the quarterly report would be a working strategy?

Mathias: I really do not know.

Thomas: The institutions tend to reduce exposure ahead of earnings announcements, did you know that there was such a premium around these events?

Mathias: No, but it's not unreasonable that it can exist. And yes, it is possible that a strategy could work. Possibly for a quant fund that may have some calculations and that can trade thousands of shares. Having it for an actively managed fund with a long-time horizon becomes very complicated because you can only trade a fraction of your position and it requires other resources as well. You might also have a price impact as well, so it becomes way too complicated for a fund like us with such a concentrated portfolio. But for another large quant fund with tens of thousands of positions, it might well be possible to put it into an algorithm.

Thomas: They believe fund outflows could be an explanation for why one reduces exposure to announcing stocks. What do you think about this?

Mathias: There is a great desire among Swedish investors to own companies with great reputational risk, such as Embracer and SBB. It is surprising to me that you are forced to invest in those stocks when there are so many alternatives. There is still an imminent risk that things go to hell in these companies, there are constant articles written by quite famous short sellers which means that it is not possible to say that “I had no idea that it was this complicated or that the accounting was so bad”. Newspapers are very good at going out and exposing companies and managers, you get an incredible amount of crap as a fund manager if you are a large owner in one of these types of companies. So, it is strange that you have such a great desire to enter into complicated cases. Then whether that has an impact just before quarterly reports, I don't know. I think it hits everywhere, you have to have exposure somewhere during reporting season.

9.1.6 Christoffer Johansson

Thomas: One finding in the paper is that institutions on average are reducing exposure to announcing stocks. Do you trade in any specific manner around earnings announcements?

Christoffer: We do not have a strategy around earnings announcement trading. Although, It is often around earnings announcements that things happen. We have a long-term plan for the company and quarterly earnings verify or decline our estimates. It's often around an earnings report, before or after, where we choose to increase or reduce exposure to a stock. That is when new information comes to the market.

Anton: And what are your motives when trading before an earnings announcement?

Christoffer: If it is before, it's rather looking at the valuation of the company and how the company usually performs against the consensus estimates. If we think the valuation is a bit lower than we think, the company usually outperforms consensus and if we have not seen any evidence of this being a bad report, then we might increase our exposure ahead of an announcement. But I understand your reasoning and I agree that on average I would think we are rather sellers than buyers.

Thomas: If I understand you correctly, you try to predict the outcome of earnings reports and on average that leads you to sell before announcements?

Christoffer: It is risk/reward. If we have our target weight of the company and have not sold anything in the company before, the company has probably performed well and we might be overweight in the company, then it is a good time to reduce some risk ahead of an earnings announcement. The other side of the coin is portfolio management and there we have sort of a risk buffer that we try to maintain.

Anton: Could you buy back the stock after the announcement?

Christoffer: It happens a lot. We want to own the company around 5 years, but during that period we rebalance both up and down in relation to how the company performs.

Anton: What type of investors do you mainly have? Is it retail or institutional? And how does your communication towards your investors work in terms of communicating your trades? Can they interfere in your operations?

Christoffer: The investors do not affect how we trade. We do not have any institutional investors in our funds. It is primarily retail in terms of pension capital.

Thomas: Do you communicate your trades to the investors?

Christoffer: We have several channels, an app, weekly and monthly letters, and then of course quarterly and yearly letters.

Thomas: Do you do that for all trades?

Christoffer: No, not all trades. There are alot of trades done in rebalancing purposes however we communicate all larger trades and if we pick up a new stock our let one go. We also have teams-meetings with our customers periodically where they can ask questions and we display all our changes. We try to be very transparent which is something that the industry unfortunately has not always been. 20 years ago, not even a discretionary fund manager could get a list of the holdings of another fund.

Anton: The study finds that a strategy that buys 10 days before announcement and sells on announcement day can yield 75 bps, where 19bps is gained on the announcement day. What do you think about this risk premia, do you think it exists?

Christoffer: It sounds logical, there is more media buzz ahead of earnings reports. Most companies are also guiding somewhat conservatively because they do not want to have negative surprises. I believe there could be potential in such a trade.

Thomas: Ahead of earnings reports, what are your expectations and concerns?

Christoffer: We manage funds thematically. We look at the fund and first look at the thematic, which does not really change over a week. But this is the first thing we look at ahead of an earnings report, such as cyclicality. Then we have excel-models where we try to measure competitive advantages in relation to the valuation. Then we look at consensus and compare them to our estimates and depending on how much risk buffer we have; we could potentially increase exposure over the announcement. Here historical performance matters, some companies are very conservative with their guidance. For example, we have owned Crowdstrike since 2019 and they have outperformed consensus with ~2% in every quarterly announcement without exception. They are always guiding conservatively. The market has now started to price this in, but we try to trade in these situations.

Anton: Another finding in the study is that if one holding in the fund would fall significantly this could lead to fund outflows by investors selling. Have you experienced this?

Christoffer: No, never. We are global, have 60 portfolio holdings and all investors get transparent updates so it's almost never that an investor gets hung up on one holding.

Anton: Embracer is one of your holdings and as you know it fell ~15% two days ago. How do you handle these situations?

Christoffer: When the report comes, we have hard data we can feed our models and see if the long-term case holds up. Then if there is larger news, we evaluate how this affects the future.

Thomas: You mentioned that you can reduce risk exposure ahead of an earnings announcement and potentially refill after the announcement when you have the outcome on paper. What are your concerns when choosing to reduce risk exposure? Is it purely fund performance driven or can there be personal career factors or investor opinions?

Christoffer: We get much more punished if we have bad performance than we get praised when we have good performance. For us, since we have a lot of pension money, investors are concerned about having too much volatility. Our investors like a somewhat calm journey and we do not necessarily have to chase the last % of return if we don't have enough conviction. Therefore, we might be more tilted towards lowering risk ahead of earnings announcements.

Thomas: The study finds that the risk/reward tradeoff improves over earnings announcements, arguing that previous papers, who explained the earnings announcement premium with increased idiosyncratic risk, were wrong. Did you know that there could be increased risk-reward over earnings announcements?

Christoffer: I have not read the study; however my impression is that it is reasonable and I can recognize the pattern.

Thomas: Do you think a strategy where you buy 10 days before report and sell on the report day could be viable.

Christoffer: I'm skeptical over time. I have seen a lot of models that fit one type of market and what I have seen is that one model could work in one type of market environment, but not in the other. I think you would have to complement this by looking at different market environments before I am convinced. It's just like momentum working well in a straight line and trend, but when it is jumpy it doesn't work well. It's enough to lose one time to lose your investors and it is not worth the risk. It's harder to attract new capital than it is to maintain capital.

9.1.7 Tommi Saukkoriipi

Thomas: The study finds that fund managers on average reduce exposure to announcing stocks. Do you do any specific trades around earnings announcements?

Tommi: All managers do it differently. For me, I have never been very trading oriented and therefore do not make many trades around announcements. One reason is also of course the size of our fund making it hard to make meaningful trades. Another reason is that we try to have companies that we can hold over a longer period of time and will not back out of because of one earnings report. With that said, we see that there are some companies that usually miss on quarterly earnings, and we understand those who do not want to have that risk over the report. With our long-term view however, the reports are hopefully rather verification of what we already believe.

Anton: You mentioned that you have 35 billion SEK in AUM, is not trading a personal choice of yours or rather because of the size of your fund?

Tommi: I would say the fund fits my personality. When I started, the fund was much smaller however I did not trade more back then. I usually say that the strength of our team is not in our trading.

Anton: You have both retail and institutional investors. How does your communication towards them work and how do they affect your trading?

Tommi: We have monthly, half and full year reports and these reach all investors, both retail and institutional. We also meet institutional clients more often, often when we execute new mandates. We also meet contacts on their request. If everything goes to plan, there is not that much communication needed. But in weeks like we have seen now, there is more concern.

Anton: Are there larger investors who can affect your trading?

Tommi: No. There are however special cases, for example when it comes to weapons. Some investors still think it is okay, while some don't. That's why not all of our funds are allowed to own weapons.

Thomas: Another finding in academia is that there exists an announcement premium. Did you know about this?

Tommi: No, that's new for me. There are more similar studies such as shares being a winter sport and with some data mining, I think there are many correlations you can find. If it were truly statistically proven, then the market should have arbitraged this premium away.

Thomas: So, do you think a strategy where you would buy 10 days before an announcement and sell on the announcement day would be viable?

Tommi: I would think the probability is 50% minus the trading costs.

Anton: Do you think there could be higher returns around announcements?

Tommi: Of course, there are higher volumes around reports, but the one earning money is rather the broker.

Anton: What do you think of ahead of an earnings announcement?

Tommi: To quantify our trading volumes, we have historically had 25-50%. It is higher in times of alot of M&A activity. Market volatility also of course increases chances to trade.

Thomas: What are your expectations and concerns ahead of earnings announcements?

Tommi: We are long-term investors. There are some companies we have owned for 30 years. If the company does what it has communicated, the investors are treated well, the accounting is conservative and it's possible to motivate the valuation, then there is no reason to do short-term trades, unless the share increases to 10% where we are forced to mechanically reduce our holding. There are of course other companies that are more cyclical. When it comes to cyclicality, for example Boliden, I don't own it because I expect the copper price to reach a certain level and that our estimates on metal prices are better than the markets. We look at spots and forwards and make our evaluation. In these cases, the markets can be more volatile which can lead to higher trade volumes.

Anton: In the study they mention that investors can have different concerns such as fund performance, personal career, investor opinions etc. when trading. What do you think of this?

Tommi: Yes, the industry has been criticized for being too close to the index in order to beat the index and if you are too conservative, of course you can de-risk ahead of earnings reports because you are worried and might have had a rough recent history. Generally, I'm not surprised that this exists. Personally, I do not act this way.

Anton: How about other macroeconomic announcements such as FOMC meetings, labor market or CPI news. Do you take these into consideration or do any specific trading around these events?

Tommi: Yes, we take it into consideration. When it comes to my funds and many of my colleagues' funds, we are more bottom-up approach focused, trying to find good companies that can give good risk adjusted returns given the market environment, but I am not expected to create value by forecasting what Powell or someone else will do. We are aware of the updates but do not necessarily bet on the outcome. These events of course create volatility in the market, but it's not the most crucial thing for our portfolios.

Thomas: Another finding in the study is that extreme realizations can lead to fund outflows if one holding declines significantly, which the paper argues can be an explanation to why fund managers reduce exposure to announcing stocks. Have you seen this in your funds, and do you take it into consideration?

Tommi: Not at all in my funds no, however, I can understand what's happening for example around Alecta who have struck a couple of landmines. This creates negative publicity. This is nothing we have had to take into consideration, and we have noted that the fund flows have been surprisingly calm both over Covid and the war. Of course, you have to continue to deliver returns over index.

Anton: Do you think fund outflow risk could be a factor for selling for other fund managers?

Tommi: It could be a factor. However, I think the customer has more focus on the aggregate result rather than whether you predicted a report right or not. It's the sum that counts over time. If you have not been able to deliver returns over numerous years then you will be questioned, with reason.jn

9.1.8 Jannis Kitsakis

Thomas: Do you have a strategy around quarterly reports?

Jannis: As a pension fund, we cannot trade inflows and outflows, and it is public, of course, and that means that we are, by default, a bit more long-term and have a lower turnover rate. When we trade, we don't do it because there is an event going on, but we have the positions that we want considering that an event is coming and when that event occurs. We rather act on a report, if it goes down and we think it's a wrong reaction, then we can buy more.

Anton: You manage pension money and surely have a long horizon to be evaluated on, what does it look like?

Jannis: We are evaluated in c3-5 years, and you want to be as good as you can every day, but this risk differs between funds. In a hedge fund you have a risk mandate and then you sit and count on it. If it is the case that a risk moves away in a share before the event, then I think there is a behavior that you reduce the risk because you don't want to get drag downs during these events, but it really doesn't work that way with us.

Thomas: Do you think other invetors can reduce exposure ahead of earnings announcemnts?

Jannis: I absolutely believe so and it can be anything from day traders to hedge funds to long only funds that take ratio speculation and if you have got your view right, or if you have perhaps got it wrong, then you may choose to reduce the risk.

Thomas: There is a premium around macro news, do you make any trades around that?

Jannis: Even less then, I would say. When it comes to macro events like this or other types of events, then it's more a question of whether to get out of the market or not and that's not really in our strategy. Having said that, you can always be a bit tactical. Sometimes the stock market has gone up 10% and you feel that you have been paid for taking a risk, then you can perhaps sell a little on the margin. You don't push on, but you try to be a little smart, sell a little and then you do it proactively. It can be about selling between 0.5% - 1.0% of the value and you do that with the justification that you had a short-term good upswing or to be a bit proactive and have preparedness. So, I confirm what you say but in a slightly different way.

Anton: What kind of expectations and concerns do you usually have before quarterly reports, for example, or other events?

Jannis: There we have the luxury of not having any forecasts on a quarterly basis. This also confirms your thesis, because if you do something, you do it more by feeling than by having numbers. Before a report, it is very difficult to know because all the information is public. There is a consensus picture, and it is difficult to claim that you know something better, it is more of a feeling. Then you can either buy a little bit or sell a little bit, but it only happens by feeling, you can say by price action, and that perhaps confirms your thesis as well.

Anton: Do different stakeholders influence how you manage your shareholders' capital?

Jannis: We try to be proactive and in Sweden we have no index positions, but we have chosen the companies we own. We must know where the risks are, and we must be able to explain where things went wrong and that was a risk we took. But in general, it is clear that you are influenced. We flag up when we go above 5% ownership in a stock and flag down when we go below 5%. We look at the owner list and ask ourselves if we should be top 5 owners or top 10 owners. This can mean that for tactical reasons you choose to step below 5%, but it's nothing that drives our investments. If an opportunity arises you may adjust the holdings somewhat. Sometimes you or the media find something that you are not comfortable with in a certain stock. Then we can also make an assessment and change our mind. And vice versa, some positive factors can arise that make us change our minds.

Thomas: Do you think a strategy where you buy before the report and sell on the day of the report would yield a return?

Jannis: It would be exciting to try, but it will be very expensive with transaction costs. If you are a very small fund or private person, then it will be very expensive with minimum brokerage and so on. If you were to do it on a larger scale, then there is a risk that you will become very large in some companies so that you influence too much when you step in and influence too much when you leave. It is a theoretical exercise, but in practice it can be difficult to implement. It might not work for two years and then it works for the next five years, during these first two years you might have to shut down because it doesn't work.

Thomas: Did you know that an earnings announcement premium exists?

Jannis: No, I actually did not. When you make a product like this you must think about what we are selling, is it a hedge fund and should you compare ourselves against an index. If you buy 10 days before the report and then sell on the day of the report, what do you do with the money afterwards? Do you have them in cash to claim this prize?

Thomas: Fund outflows due to certain holdings declining significantly are a risk. Do you think it might be relevant for your colleagues in the industry?

Jannis: Yes, I think so, but then you have to segment what kind of company it is. Is it the big companies? They can go down 20% too, but then I don't think the fear is that much. If you own a good company, you probably want to do it even after such an event. In companies with slightly higher risk and higher volatility, you are potentially more afraid ahead of events, and there can be a lot of following John. As soon as you are forced to make decisions due to more stress and more emotions, then you risk selling. So I believe so outflows is considered. The theoretical reasoning is quite correct. If you come to the practical side, in Sweden, for example, ownership lists are public and if someone starts selling there, there can be little bit of following John. Especially if a company is in a downward spiral, decline sparks more decline. We have a lot of money and manage 90 billion SEK and have c120 holdings. In a normal fund, when something goes bad, you can easily sell it. We feel that we want to be a bit of a long-term owner and even if things go in the wrong direction, we might have an inclination to stay to try to solve the problem a bit longer, which means that you have a tail of holdings that you might actually want sell but are not.

9.1.9 Anonymous Fund Manager

Anton: Do you have any trading strategies ahead of earnings announcements or other macro news?

Interviewee: We don't really have a trading strategy since we are long-term focused. We can overview the weights in the companies given their recent stock performance in relation to what we think they are worth. In some cases, one might increase or reduce exposure to one stock because you have some opinion about the earnings report, but it's hard to predict them and it is not really our thing, we are not traders in that manner. In some cases, for example with Atlas Copco, stocks are almost always traded downwards on earnings announcements, and there I could imagine some reduce their exposure ahead of the announcement and over time it reverses back. On that theme I think one might want to reduce the risk ahead of announcements because you know what has been but cannot know what is coming and I think that is probably the reason behind reducing exposure ahead of earnings announcements.

Anton: Have you heard about the existence of the earnings announcement premium?

Interviewee: No not in that way. Spontaneously I think it could go both ways and that there could be a discount as well, but maybe that is not the case.

Anton: And what about a premium before other macro news such as FOMC meetings?

Interviewee: No, I haven't thought about it that way but of course if you take an active position in something that is uncertain, you should get paid for it, everything else equal, on an aggregate level, but it's hard to say on what level it would be.

Anton: Do you try to predict the outcome of earnings announcements and the movement around the announcement?

Interviewee: Yes, we try to own stocks with profitable growth and high return on capital and it's proven that over time this creates a lot of value. We have an impression about where the earnings announcement will land, and then we talk to the analysts about it. We build our own models of the companies, but they are on an annual level, which is different from when I worked with equity research where you try to predict the outcome with a decimal's accuracy. So, we have an expectation on most of our companies.

Anton: What expectations and concerns do you have ahead of earnings announcements?

Interviewee: It is always different depending on the company. In a manufacturing company like Volvo, Sandvik or Atlas Copco, incoming orders are an important number and EBITA margins. If you beat order income estimates and are also able to have good margins, then you will get paid for it in the share. In recent times you have gotten more paid for having a good margin, above expectations, because it's very driven by cost expectations and the outcome of price increases right now. So order intake is also an important factor, but in some cases the number can be made up and part of the orders can be made up of "air" because of several factors, so it depends. For a company like Gränges, you look like EBIT per ton. It's about what parameters are leading indicators for the operations.

Anton: The study finds that if one holding in the fund would fall significantly, this can lead to fund outflow. Is this something you have observed, and do you consider this factor while trading? For example, the Embracer stock declined 15% last week.

Interviewee: I understand, we own Embracer and have fought with this. We are long term investors however some investors are not, and it depends on when they entered the fund, what horizon they have and if the fund has underperformed for a while. An investor might sell and buy another fund or index, while others own the fund for very long periods and understand that it goes up and down. Especially if you work at a bank or larger institution, then your job is at stake. It's less risky to be close to the index, however if you're an active fund your goal is to beat index over time and in order to do that you have to take some active risks and that's why we try not to think in index terms but rather take active positions when we see upside. Then there are periods, such as what we have seen now, where there are more outflows which is not fun, but if we were to work differently, we might as well close down the fund. You have to work long-term, but it can be mentally frustrating both for me, the firm and the customers.

Anton: Your fund has around 25 holdings, do you think this effect is larger for you because every holding makes up a larger share of the whole fund compared with funds with around 60 holdings?

Interviewee: Yes maybe, but we also believe that we are right more than we are wrong, but you must keep in mind that we are always compared to an index, even if we ourselves do not think that much about the index, you tend to over or underweight. One of our larger holdings is overweight compared to the index, however this position is very close to index and if that company were to decline, it would not have a large effect compared to the index. Then there are other companies that have a more active share where the effect is larger, both on the upside and downside. If you strike many landmines over time and have many active positions, then you will of course get many questions and outflows. And vice versa sometimes you have a good period, and you have to live with that.

Anton: The study finds that buying announcing stocks 10 days ahead of the announcements and selling on the announcement day earns a premium of 75 bps, while 19 bps are earned on the announcement day. Do you think that such a strategy would be viable?

Interviewee: Yes, I think it could but then you would have to have such a strategy. We cannot steer towards such a strategy, but we can of course act ahead of announcements and on the announcement day depending on what you see. We could not steer our whole fund into this because it is not what we have sold to our investor, but if you would create a trading company based on this then yes, I think it could work. What you often miss in this aspect is that funds that have billions in capital creates stock movements if you were to make any substantial trades. In academic papers you often state that you do not take transactional fees into consideration, however that is exactly what you must do in order to make it applicable in reality. The movement that trades create because of funds not being that liquid must be considered.

Anton: How is your communication towards your investors?

Interviewee: We have monthly letters and continuous follow ups with customers that want to, where we show changes to our holdings and weight differences that have been made during the months. Sometimes there is much focus on a single holding that have received a lot of publicity. It depends on what holding you have and what changes you have done. If you can motivate your decisions it is generally not a problem.

Anton: The paper discusses reasons why funds reduce exposure to announcing stocks, such as fund performance, personal career and investor opinions. Do you consider any of these factors and in particular investor opinions?

Interviewee: Yes all of these factors matter on different levels, even though you try to be unbiased you are not. Banks have brokers that drive cases as a sales strategy. Sometimes we try not to talk too much to the brokers since there is a lot of noise and they tend to always have ideas about things. Sometimes you can listen to some but not act on what they are saying. We talk to the analysts which are also hired by the banks to create ideas and they are of course ranked and get paid according to how good they are in terms of what the investors say. A good analyst can drive a good long-term case that you listen to, but you must have a balanced critical view on everything you hear and have to make your own calculations and analysis.

Anton: Can a larger investor in your fund influence your decisions?

Interviewee: You get critical questions about your decisions. Customers who are not making active trading decisions in the market themselves do not always fully understand what it is like to take these decisions, while institutions or wealthy individuals who take risk with their own money have a better understanding of how trading goes up and down. So, it depends on what customer you are talking about, you try to have a good dialogue with investors however you are not that affected by their opinions.

Anton: What about personal career and fund performance?

Interviewee: Of course. Over time if you have many bad years that will affect your career. However, if you think long term you will get the results eventually even if there might be some stressful times. One effect of taking risks is that you might appear a lot in the media if things go south. When the media starts digging, they get more material to throw onto the fire. In these situations people have been fired.

9.1.10 Stefan Sundblom

Thomas: Do you have any kind of trading strategy ahead of earnings announcements?

Stefan: I manage a microcap fund, with companies up to c8,5 billion SEK in market cap. The average market value of our holdings is 900 million SEK. The liquidity for me is an important factor, and often in these smaller stocks the liquidity is bad, and it is easy to affect the price of the stocks. For me it is important to find a good entry point, but also a good exit point. So, I focus a lot on that. For me, I must sell when there is liquidity. And that often occurs the week after earnings announcements. I trade very seldom ahead of a report because am a long-term investor and I don’t have the possibility to do it because of the liquidity. However, I am not surprised if people managing large cap funds would do this to secure returns ahead of an earnings announcement.

Anton: Are you aware of the earnings announcement premia?

Stefan: I can believe that it exists, but for fundamental fund investors like me it is not where we earn the large part of the return to do short-term trades. We want to have a lower turnover in our funds, it is not our main strategy to do short-term trades. There is a lot of speculation ahead of reports, but in smaller companies rather after.

Anton: Are you aware of the macro announcement premia, do you consider macroeconomic factors?

Stefan: Yes, but after the announcements. It is not what we bet our investments on what the interest rate will be since it is very hard to do. Rather we try to focus on how the companies will perform, regardless of interest rates and inflation. We look for companies being able to handle harder and calmer market environments. But of course, for real estate companies you need to take into consideration the interest rate, we however consider it and consider our positions a bit after the macroeconomic events.

Thomas: What factors do you consider ahead of an earnings announcement?

Stefan: I manage a portfolio with small, fast-growing companies. I need to look at it case by case. For me I focus on the companies’ business models and how the companies are developing according to it. Does the business model work, is there a need for it, do they have any USP, what are the companies’ targets? Follow up the investment idea we had when we took a position in the company and evaluate how it has gone. I have a horizon of 5-8 years.

Anton: Do you have any concerns ahead of earnings announcements?

Stefan: Liquidity is the main concern that I have, buying 100 000 shares Ericsson is easy, but buying 100 000 shares in a smaller company can take weeks. The liquidity is normally better after an earnings announcement where both buyers and sellers appear in the market. An important key figure for me is the cash flow of a company, how much cash do they have? What affects the cash balance, is the cash flow good or bad? It is especially important when there is a weak capital market and hard to raise new money. With a young company, they have a weak balance sheet often, so I focus a lot on the cash flow.

Anton: If there is an extreme realization for an individual position in your portfolio, do you see any fund outflows in your fund?

Stefan: When stocks go down, people tend to sell. We often have large inflows when stocks are expensive, and large outflows when stocks are cheap. This is a behavior that we tend to see and even if we don’t want to sell, maybe we need to do it because of outflows in the fund. As a fund manager, we need to comply with this behavior. However, if the stock has come down in price it can be a good entry point for us. In my fund, you can only buy or sell the fund one time per quarter. Hence, I don’t see the behavior that people tend to sell the fund if one holding has performed badly.

Anton: Can the fund investors affect your trades as a fund manager?

Stefan: Normally they are not that interested in the details. In a recent bid on one of my portfolio holdings, some other investors didn’t want to say no to the bid because of the fear of being exposed in the media. Hence, there is always a risk of being questioned in the media for your decisions which can make you think of the decisions that you take. But if I only think of my own performance, then I’m taking a big bet since the most important thing is the return to the fund investors.

Thomas: Do you think that a strategy of buying 10 days before an earnings announcement and selling on the announcement day to exploit the premium would be viable?

Stefan: It depends on the liquidity in the market. For my companies it depends since the liquidity is often bad ahead of the earnings announcements. If you can take large positions and take that risk, as long as people are selling off their shares ahead of earnings announcements to secure some profits and then maybe buy back after the earnings announcement, then it might be a case to be contrarian and use the proposed strategy. I don’t know if I would invest in the strategy since I’m fundamental in my view and have a longer investment horizon than that. But if the strategy is proven to work, then there should be a market for it as well. But if too many exploit the strategy, then the arbitrage opportunity will disappear quite often since everyone would buy ahead of the report and sell after.