

Abstract

The thesis examines the phenomena of post-earnings announcement drifts (PEAD) on the NASDAQ OMX Baltic stock exchanges during 10 years from 2000 to 2009 by using regression analysis and a portfolio-based trading strategy approach. The portfolio strategy is based on forming quintile portfolios using two metrics: initial abnormal return (IAR) and initial abnormal volume (IAV). Trading is financed through borrowed funds, accounts for transaction costs and can be fully replicated in real life. The best performing individual IAR-based portfolio and the combined trading strategy could earn up to 254% and 112% significant annual cumulative abnormal returns, respectively; however, after accounting for transaction and borrowing costs, possibilities to profit on PEAD nearly disappear. Even though both regression analysis and the portfolio strategy provide evidence supporting existence of PEAD on the Baltic stock markets, the results are not robust enough to formally reject the Efficient Market Hypothesis as one cannot profit from the PEAD.

Keywords: Announcement effects, Baltic stock exchanges, IAR, IAV, initial abnormal return, initial abnormal volume, PEAD, Scholes-Williams beta, trading rule