

# **Are stock returns predictable in the Saudi market ? an investigation of returns around earnings announcements.**

Ahmed A. Alzahrani\*

## **Abstract:**

This study examines stock returns and trading activity around earnings announcements for all listed companies in the Saudi stock market (SSM). Our interest here is to examine the inefficiency issue of the SSM that can arise around earning announcements by stressing that it is possible to predict future returns using current stock returns. We use Event study methodology to document the price drift and then examine return predictability using cross sectional regression. High and significant price and volume reaction around earnings announcement suggest that earnings announcements contain highly informative information . We examine the return predictability and trading volume around quarterly earnings announcements for the period 2001-2008 . We find that earnings announcement return (EAR) can be a good predictor for subsequent returns or drift in the market for the following four weeks. We also find that relative trading volume (turnover) is a another good explanatory for future returns. We also examine the effect of industry type and size of the firm with regard to drift magnitude and return predictability and find that price drift is larger in industries with fewer institutional ownership and in small-sized firms.

Keywords: Post-Earnings Announcement Drift, Market Efficiency, return predictability , Saudi Stock Market, trading volume.

---

JEL Codes: G14, G15, M40

\*Assistant professor of Finance. Institute of Public Administration . P.O Box. Riyadh 11141, Saudi Arabia .

Email: [zahraniaa@ipa.edu.sa](mailto:zahraniaa@ipa.edu.sa)

Mobile : +966-55718-2842

Office: +966-474-5207