

Title:

Firm Trustworthiness and Investor Underreaction to Earnings News

Paper Abstract:

We investigate whether a firm's perceived trustworthiness affects investor underreaction to earnings news. Using a firm's corporate social responsibility performance as a proxy for its perceived trustworthiness, we find that underreaction to earnings news is significantly weaker when the firm is perceived to be more trustworthy. This finding is particularly pronounced for firms with poor financial reporting quality, low institutional ownership, and positive R&D spending, and when economic uncertainty is high. Our finding is robust to using Forbes' "America's 100 Most Trustworthy Companies" to capture perceived trustworthiness. These findings suggest that trust helps explain underreaction to earnings news.