

Misreaction

CNV Krishnan, Paul Laux

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ABSTRACT: To learn about investors' information processing, we examine the issuances of trust preferred stock, a leverage-neutral hybrid security. Specific benefits of trust preferred stock issuance have become focal points for issuers. These focal benefits include tax and financial distress avoidance, for example. We find these benefits are associated with short-run stock price misreactions. For those issuers that do not have a focal benefit of issue, mean short-run abnormal returns tend to be negative but long-run abnormal returns tend to be positive. Unanticipated changes in long-run profit opportunities, not short-run operating profits, appear to be the key to the misreaction.