

Ph.D. Dissertation Review:

**CERGE Center for Economics Research and Graduate Education
Charles University Prague**

**Essays on Financial Markets
Iuliia Brushko
Dissertation
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This dissertation includes three essays on Financial Markets. The first essay is concerned with financial signaling and earnings forecasts. The second essay deals with cross industry abnormal returns and trading volumes on earnings announcements. And the final essay investigates European Union International Portfolio investment positions.

In the first chapter, the candidate studies how the combination of different accounting ratios, which are considered to be financial signals of future performance, can affect analysts' and managers' earnings forecasts. The candidate's findings show that analysts treat firms differently depending on whether firms have strong financial indicators (high signal group), weak financial indicators (low signal group), and those with both positive and negative signals (mixed signal group). The first essay also provides evidence that managers may realize the heterogeneity in analysts' treatment, and as a result managers' earnings forecasts are affected both by the signal group type of the firm and the analysts' bias for the appropriate signal group. At the same time, the study finds that analysts sometimes fail to disregard managers' forecast biases and are potentially misled by managers. This provides evidence of inaccuracy on the part of analysts and possible gaming on information disclosure between analysts and managers.

Comment Essay 1: I find essay 1 compelling and very interesting. The candidate has provided a substantial literature in support of this research and has followed the literature in developing the analysis. Essay 1 appears ready, with some minor editing, for release to a quality journal.

The second essay examines whether trading activity responds to industry related earnings announcement and whether this trading activity is informative. The candidate finds that the subsequent announcer's abnormal trading volume is informative in regards to the subsequent announcer's stock performance upon the first announcement and in the post announcement period. While the first announcer's earnings surprise is expected to be informative about the subsequent announcer's earnings surprise, the candidate also shows that the first announcer's earnings surprise in the current quarter, and the history of both first and subsequent announcers, can predict the subsequent announcer's earnings surprise. The candidate also investigates whether the information content of the subsequent announcer's abnormal trading volume is not solely explained by the market agents' ability to incorporate the subsequent announcer's earnings surprises predictability. The results suggest that although the trading activity of the subsequent

announcer is driven by the beliefs updating made upon the first announcement, the market fails to incorporate fully the earnings surprise predictability, which provides some evidence of market inefficiency.

Comment Essay 2: Essay 2 is very well developed and worthy of publication. While essay 2 is well developed, it does seem a bit difficult to read. I would recommend editing this essay with an eye toward enhancing the readability of the abstract and introduction sections. The use of the word “subsequent” is used so much that it makes reading tedious. Additionally, a thorough proof read is necessary to remove grammatical errors and misspellings.

In the final chapter (co-written with Yuko Hashimoto), the authors study whether EU member countries act as a single investor due to stronger financial integration over recent years. Although the authors find evidence that portfolio investments of EU countries tend to move together, they also find there is some diversity among the Union members. In their analysis, the authors distinguish two types of countries: those that prefer to invest in a more evenly distributed way among counterparties (low concentration type (more diversified)) and those that invest more heavily in some counterparties (high concentration type (less diversified)). Consistent with their hypothesis, the authors find that the level of investment concentration and investment share play a role in the way the countries will response to the changes in the macro-variables. The authors also find evidence of the crisis period affecting both the co-movements of EU member investment shares at the destination and the macro-variables driving international portfolio investments. In particular, variables of the health of financial sectors were important determinants for portfolio investment during the crisis.

Comment Essay 3: Essay 3 requires some careful editing to be more readable. Please pay attention to the overuse of the word “the” throughout this essay. With some work it will be publishable.

In sum: this is a dissertation fully meriting a Ph.D. from CERGE-EI. It is written to international standards.

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