Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	**Michal Kolář**
Advisor:	**Evžen Kočenda**
Title of the thesis:	**Does the Accrual Anomaly Persist?** **Evidence from the U.S. Stock Market**

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Please provide your assessment of each of the following four categories. The minimum length of the report is 300 words.

The thesis analyzes how the accrual anomaly is related to market efficiency and its development in a recent history using the U.S. stock market data. The thesis is fairly ballanced in terms of the subject's introduction, review of the literature, methods, as well as the applied analysis. The empirical work itself is presented with numerours details. The subject of the thesis is clearly defined.

Contribution
The thesis analyzes the accrual anomaly using the contemporary U.S. stock market data on 784 companies. It covers the period between 1991 and 2015, including the period immediately following the global financial crisis. Analysis of the topic is performed on the whole sample and then estimated on the data from the post-crisis period between 2011 and 2015. The key question of the thesis is whether the accrual anomaly has lessened in recent history. For that, three potential reasons are explored: increasing trend of institutional funds trading on accrual mispricing, the increasing presence of cash flow forecasts, and earnings quality. A robust MM regression is used to assess the anomaly alleviation. The results show that accrual mispricing based on the increase in trading on the accrual anomaly and quality of earnings is linked to lower accrual anomaly during the whole period from 1991 to 2015. The findings do not show a link between lower accrual anomaly and the growing number of cash flow forecasts, though. Further, the results are less conclusive for the post-crisis shorter period. The thesis represents a solid treatment of the subject with a distinct value added.

Methods
In the thesis a robust regression approach is employed to investigate the impact of institutional funds trading on the accrual mispricing and to study the influence of earnings quality. The robust regression approach further takes into account sample, subsample and sample selection bias to examine the impact of cash flow forecasts. A two-stage Heckman approach is employed as well. The estimation is performed in a panel-data setting. Despite that the methodology part occupies a relatively large section of the thesis, its description lacks the necesarry detail at number of places. Overall the methodology approach is fine, sufficiently motivated and executed.

Literature
The literature is reviewed in detail and covers the most relevant papers. The literature review is divided into five parts. First three parts describe numerous isues relevant to the analysis from the market perspective. As such they do not represent much of the contribution but still provide a frame for the later analysis. Two later parts are more relevant to the subject of accrual anomaly and directly related issues. The empirical results are to some extent complemented by some related evidence from relevant papers (already cited in the literature section) that help to position empirical results in a comparative perspective.

Manuscript form
The manuscript conforms to formal requirements for the master thesis. The text reads well, albeit some typos occure. In section 4 the text is broken by the excessive use of various abbreviations. Still, the text flows well and it is easy to understand in general. All sections are properly numebred. Tables with empirical results are presented in well designed way.

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In case of the successful defense, I recommend the grade "výborně" (excellent, 1).

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY		POINTS
Contribution	*(max. 30 points)*	27
Methods	*(max. 30 points)*	25
Literature	*(max. 20 points)*	14
Manuscript Form	*(max. 20 points)*	17
TOTAL POINTS	*(max. 100 points)*	**83**
GRADE	*(1 – 2 – 3 – 4)*	**1**

NAME OF THE REFEREE: Evžen Kočenda

DATE OF EVALUATION: *26.8.2017*

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                                                    Referee Signature