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Reassessing Risk Management with Corporate Event Data

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About the Author

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Introduction

This white paper explores how corporate event data can be used to manage risk and aid compliance efforts.[1] We will give an overview of the risk management process, detail how corporate events can be used in a risk framework, and provide some real world applications and use cases.

It is impossible to know the future with complete certainty. However, with the proper information, it is possible to prepare and take steps to mitigate risk. A great deal of volatility in publicly traded stocks occurs around corporate events. Knowing when these events will happen, as well as any revisions to the date, time or content of those events, helps investors get in front of any risk or volatility they may present. While corporate event data help investors identify risk catalysts, it cannot predict a risk event. Said another way, while events data alerts investors to potential risk events on the horizon, they cannot predict if those events will in fact shock the market and result in a risk environment. In this white paper we explain how this data can help investors spot certain types of risk catalysts well ahead of potential risk events.

[1] Corporate event data can be defined as any single-stock event that can cause volatility in the marketplace such as (but not limited to) the following categories: analyst/investor events, calendar events, company events, company metrics, investor conference related events, corporate actions, dividends, earnings, government and public offerings.

Understanding and Identifying Risk

A well-known pillar of risk management is that one must first understand risk in order to manage it. "Understanding risk requires the ability to quantify a given risk so that mitigating controls can be put in place to reduce the risk to an acceptable level, a level that is in line with the organization's risk appetite framework. Without the ability to effectively quantify risk, no risk program can be successful."[2] Once we define risk, we can calculate and manage it. However, assessing risk is not a simple task.

Risk is an inherent part of investing that even the most successful investors can't avoid. To help minimize the impact, firms hire risk managers to analyze and attribute critical sources of risk in the market. The risk manager rifles through data for any insights that may improve investment behavior or portfolio construction. However, managing risk is not about eliminating it. Instead, investors or risk managers look for ways to take the right amount of risk at the right times. The goal is to make this determination with widely available financial statements. An experienced risk manager also knows that an overly cautious approach hurts expected returns while a more speculative mentality invites unwanted risk.

Standard financial formulas like price-to-earnings ratio, discounted cash flow, and dividend yield are usually front and center in a risk approach, while lesser-known approaches take a back seat. One often-overlooked factor is corporate events.

For example, when a tech company postpones their earnings announcement by a week, it is traditionally a bellwether for weak results. Academic research suggests that the timing of specific events on the earnings calendar can foreshadow whether the company is getting ready to reveal positive or negative updates. When an earnings announcement moves back a few days or even weeks (delayer), bad news often follows. If the opposite happens and a company pushes up its earnings announcement (advancer), it can be telling of better-than-expected results[3] (see Figure 1). In 2020, Wall Street Horizon found that approximately 800 companies in our universe of 9,000 revised their earnings dates.

All events indicate something different, and publicly traded companies disclose this information in plain sight. Understanding the pattern, frequency, and efficacy of each corporate event offers another method to manage risk. A risk manager who includes event data in their analysis can better support minimizing risk exposures.

[2] "Risk Management, Evaluation and Communication Workbook", The Risk Management Association, 2017
[3] So, Eric and Travis Johnson. "Time Will Tell: Information in the Timing of Scheduled Earnings News." MIT Sloan School of Management and The University of Texas at Austin, July 2017, https://www.wallstreethorizon.com/news/So

Figure 1: Cumulative Returns Around Earnings Announcements[4]

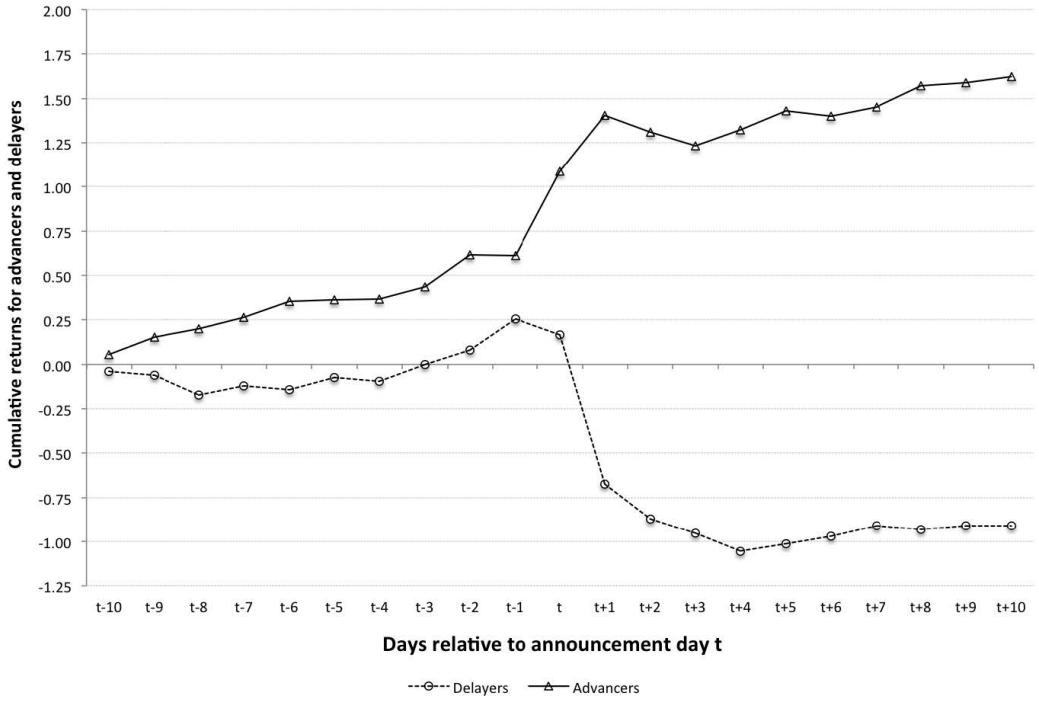

Figure 1 contains the average cumulative, market-adjusted returns to advancers and delayers. The sample consists of 18,959 firm-quarters spanning 2006 through 2013 for which the scheduling disclosure date is at least two weeks prior to the scheduled announcement date.

Corporate Event Data in a Risk/Compliance Framework

Corporate events add another layer to investors' risk management framework. Multiple calendar events combined with fundamental research can highlight potential risk considerations. When executives provide product and personnel updates on shareholder calls, for instance, it provides investors with another piece of intel to inform decision-making. Whether used in isolation or within a market data mosaic, investors can gain an edge by tapping into corporate events.

Why corporate events are important

Companies often leave a trail of clues to their financials. The key is knowing where to look well before something happens so that you can plan ahead for any potential strategy adjustment. For example, a significant movie release from Disney studios may bode well for revenue growth. A failed drug approval at a pharmaceutical company revealed on the PDUFA (Prescription Drug User Fee Act) date signifies a threat for the sponsor and partner companies involved in the trial (see "Product Events" in Table 1).

In 2020, Wall Street Horizon researched 25,000 publicly-traded company presenters across 6,500 conference and investor events.

4 So, Eric and Travis Johnson. "Time Will Tell: Information in the Timing of Scheduled Earnings News." MIT Sloan School of Management and The University of Texas at Austin, July 2017, page 30. https://www.wallstreethorizon.com/news/So

Conference Events can present a whole new realm of insights to investors. Information warranting attention around a key conference can include: dates and location of the event, presenters' names and job titles, and even the topics discussed. Investor conferences can also cause volatility as they present the opportunity for managers to exploit heightened attention leading up to the conference as a way to push the stock higher[5] (see Figure 2). In addition to identifying these events, it's helpful to understand how frequently companies revise them and why a holistic perspective can drive better investment decisions.

Figure 2: Abnormal Returns Around Conferences[6]

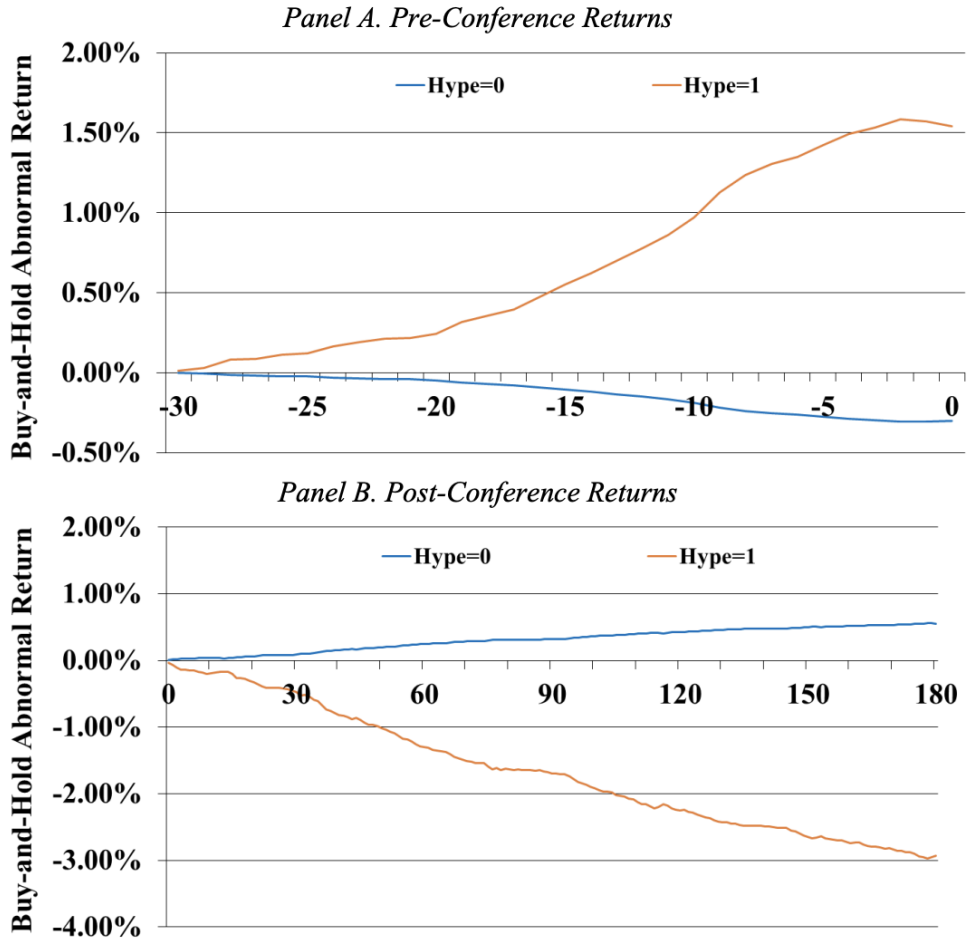

Figure 2 plots market-adjusted buy-and-hold returns around the conference. Panel A presents market-adjusted buy-and-hold returns over the 30 days leading up to and including the conference. Panel B presents market-adjusted buy-and-hold returns over the 180 days following the conference. Market-adjusted returns are demeaned by firm and quarter. Hype is an indicator variable equal to one if, in the [–10,0] window before the conference, the firm both issues voluntary disclosure and insiders are selling, and zero otherwise.

[5] Bushee, Brian, Daniel Taylor and Christina Zhu. "The Dark Side of Investor Conferences: Evidence of Managerial Opportunism." The Wharton School University of Pennsylvania, September 2020, page 28. https://www.wallstreethorizon.com/news/darkside

[6] Bushee, Brian, Daniel Taylor and Christina Zhu. "The Dark Side of Investor Conferences: Evidence of Managerial Opportunism." The Wharton School University of Pennsylvania, September 2020, page 36. https://www.wallstreethorizon.com/news/darkside

Corporate events are also important because they are primary-sourced, meaning event details are derived from the company itself, SEC, or conference organizer. This is paramount not only for compliance purposes, but for general research strategies as you aren't receiving the information as interpreted by a third party such as a journalist or analyst. Instead, the company is infusing information about itself into the market.

Specific Use Cases

Market Makers

When an earnings date changes and crosses an option expiration date, or the amount of an announced dividend is different than initially anticipated, market makers may choose to step out of the market for 10 - 30 seconds to digest and understand the news, potentially increasing their spreads or making changes accordingly. This is a time-sensitive practice and requires real-time tools.

Corporate event data sets market makers use (see Table 1):
Earnings, Dividends

Capital Markets

During volatile times a capital markets desk might monitor positions closely for any potential changes that could impact their portfolio. This includes changes to corporate events known ahead of time, therefore, time-sensitivity is not an issue.

Corporate event data sets capital markets desks use (see Table 1):
Earnings

Buy-side

The buy-side rebalances their portfolios regularly, whether once per week, month or quarter. If a portfolio manager has a position and sees potential volatile market-moving events on the horizon, they might hold off on rebalancing at that time to avoid risk and keep models in place.

Corporate event data sets the buy-side use (see Table 1):
Earnings, Corporate Actions

Broker Dealers

When broker dealers see an earnings release coming up for a volatile stock (such as GameStop), they typically use corporate event data to foresee possible spikes to maintain margin requirements, change margin requirements, and make sure retail clients have enough collateral to handle any potential resulting volatility. Vigilant firms will fare better during extreme market events and stand to avoid adverse aftereffects such as destruction of capital, enhanced regulatory scrutiny, and negative public opinion.

Corporate event data sets retail brokerage firms use (see Table 1):
Earnings

Compliance

Corporate event dates not only help a fund avoid risk from the companies they invest in, but internal sources of risk as well. Knowing the dates of potential risk events helps the compliance officer keep tabs on insider trading and internal fraud. Since most insider activity happens in conjunction with events, it is paramount to know the exact dates of these events. Armed with this information, compliance teams will know when to be on the lookout for spicious activity within their own firms. Not only is this a cost and time saver when the SEC comes looking for updates, but not being prepared with the right information in the right format can lead the SEC to issue a letter of violation due to noncompliance which can wreak havoc on a hedge fund's image, regardless of wrongdoing or lack thereof.

Corporate event data sets compliance use (see Table 1):
Earnings, Investor Conferences and Events, Dividends

On the following page detailed in Table 1, we examine event types and applications.

Corporate event dates not only help a fund avoid risk from the companies they invest in, but internal sources of risk as well. Knowing the dates of potential risk events helps the compliance officer keep tabs on insider trading and internal fraud.

Table 1: Event Types and Applications

Event Type	Data Sets	Risk Application
Earnings	Datebreaks (Earnings Date Changes) Earnings Conference Calls Earnings Dates Earnings Reports Projected Earnings	Identifying revisions to the timing or content of earnings events can help investors anticipate potential upcoming risk events. This applies to single stock as well as option strategies. Risk managers may think about earnings events as a function of the announcement date, changes in the date or time, shareholder calls, and future earnings dates.
Dividends	Dividend Announcements Dividend Suspends and Resumes Estimated Future Dividends	Dividends and dividend payment announcements are known to be key influencers of stock price volatility. When a company's dividend payments are inconsistent, investors may respond unpredictably, resulting in abnormal returns. Changes in dividend policy affect the stock price, while dividend payment announcements can impact investor expectations. Risk managers need to consider what it will mean for a stock if a company suspends, resumes, increases, decreases or leaves a dividend unchanged.
Corporate Actions	Buybacks Mergers and Acquisitions IPOs Secondary Offerings Shareholder/Board Meetings Spinoffs Splits	Abnormal returns have been observed surrounding the dates of annual general meetings.[7] While the meetings may be held privately, agenda outlines, planned board elections, and other details may become available publicly in advance of the event, giving both current shareholders and potential investors a glimpse into the deliberations to be held. Press releases and shareholder responses after the meeting can also indicate good or bad news within the company.

[7] Li, Yuanzhi and David Yermack. "Evasive Shareholder Meetings." Journal of Corporate Finance, February 2016, https://sites.temple.edu/lilyli/files/2018/11/evasive-shareholder-meetings-1.pdf

Event Type	Data Sets	Risk Application
Investor Conferences and Events	Analyst Days Business Updates Capital Markets Days Company Travel Forums General Conferences R&D Days Seminars Summit Meetings Workshops	The language used in executive remarks can be revealing about the nature of stock returns and trading volume. Investors and consumers may respond favorably to positive language used by a CEO in a speech, and vice versa for negative language. Time can come into play as well; when a scheduled speech or announcement is delayed, it could be indicative of shifts within the company.
Product Related	Movie Releases PDUFA Dates Trade Shows Video Releases	As a risk manager, you may want to know the status of a movie release or whether a company in your portfolio is getting ready to release a new product. If a high-budget movie is released directly to streaming, for instance, you may see that as a headwind for future earnings and financial performance.

When a lack of events, or delayed confirmation of events, is indicative of risk ahead

In some instances it is a lack of information that puts risk managers on high alert. This is true when regularly scheduled events, such quarterly earnings reports and annual shareholder meetings, are not confirmed within their historical date range. If a company historically verifies their Q1 earnings report date and conference call by April 20 yet has not confirmed by April 28, this could be cause for concern and certainly justifies close follow up from a risk manager. It could mean the company is more likely to delay their earnings date, and doesn't indicate confidence in what is to be shared on the call.

A similar concept applies to other regularly scheduled events, such as annual shareholder meetings. Companies indicate they are feeling bullish when they confirm the date, time and details of their annual shareholder meeting earlier than they have historically.

What if there are a lack of company sponsored events? Or industry conferences attended? When a company goes quiet, it deserves some investigation, especially if others in the space are active on the conference scene as it could point to internal issues.

Concluding Thoughts

With market volatility nearing an all-time high, many investors and risk managers might be wondering how to weather the blow. Advances in corporate event fundamental data sourcing, algorithmic processing, and deep-bench human curation combined in a cost-effective approach can enhance the efficacy of any risk management operation. Using corporate events, together with fundamental research, provides risk managers better insights about new opportunities and potential threats.

As the corporate landscape shifts to accommodate the COVID-19 impact, event data can help investors make sense of the shifting schedules, the uncertain earnings, and the ever-changing concept of what comprises an "event". Corporate event data provides critical sources of information for risk analysis that is more comprehensive, compelling and risk-aware.

Advances in corporate event fundamental data sourcing, algorithmic processing, and deep-bench human curation combined in a cost-effective approach can enhance the efficacy of any risk management operation.

About Wall Street Horizon

Wall Street Horizon provides institutional traders and investors with the most accurate and comprehensive forward-looking event data including earnings calendars, dividend dates, option expiration dates, splits, investor conferences and more. Covering 9,000 companies worldwide, we offer more than 40 corporate event types via a range of delivery options from machine-readable files to API solutions to streaming feeds.

For more information, visit www.WallStreetHorizon.com or email us at info@wallstreethorizon.com

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