Is It Good or Bad to Make the Cover of Business Week?

Jorge L. Urrutia
Loyola University Chicago

Joseph D. Vu
DePaul University

In this research study we present an empirical analysis of the impact of making the cover page of Business Week on the price, volatility, and trading volume of the stock. Our results indicate that making the cover of the magazine because of good news has negative price effects. On the other hand, there is no significant price effect for companies that make the cover page because of bad news. Making the cover page of Business Week has no significant impact on the volatility of the stock, measured by the standard deviation or beta of the security. Finally, being on the cover page of the magazine increases the liquidity of the stock, a result that can be of interest to technical analysts.

Introduction

In this paper we analyze the effect on price, volatility, and liquidity of making the cover page of a major business magazine. This is an empirical issue that can be investigated under several competitive hypotheses.

Under the so-called *instinctive hypothesis*, we could expect that positive news is good news for shareholders and negative news is bad news. Therefore, we should expect companies that make the cover page of Business Week because of good news to exhibit positive abnormal returns and companies that make the cover page of the magazine because of bad news to exhibit negative abnormal returns.

The *overreaction hypothesis* suggests that investors overreact to relevant news about firms. According to this hypothesis stock prices of successful firms are bid up, while stocks of loser firms fall below their fundamental values. Under the overreaction hypothesis, we can expect that positive news creates negative excess returns and negative news creates positive excess returns. Indeed, the overreaction hypothesis is consistent with observed individual behavior. Individuals are poor Bayesian decision-makers; they tend to overweight recent information and underweight the fundamentals (Kahneman and Tversky, 1982). Moreover, experimental cognitive psychology further predicts that deviations from intrinsic values are only temporary. As less favorable news

0747-5535/98/1600/0064/$2.00

is received, the former winner price is revised downward. Similarly, former losers become winners after their fundamentals become apparent. DeBondt and Thaler (1985, 1987) document that the NYSE stocks identified as the most extreme losers over a three to five year period outperformed the market in the following years. On the other hand, stocks identified as the most extreme winners during the same time period underperformed the market in subsequent years. Jagadeesh (1990), Lehman (1990), and Lo and MacKinlay (1990) also find reversed behavior in the weekly and monthly returns of extreme winners and losers.

Opposition to the overreaction hypothesis has focused on discussing technical flaws in the DeBondt and Thaler studies. In effect, Chan (1988), Brown and Harlow (1988), Brown, Harlow, and Tinic (1988), and Zarowin (1990) have criticized DeBondt and Thaler for improper adjustments for risk and size changes. These authors claim that once these changes are accounted for, the overreaction phenomena diminish significantly.

The *uncertain information hypothesis* of Brown, Harlow, and Tinic (1988) postulates that major surprises can be identified as good or bad news, and that rational investors respond by initially setting security prices that appear, on the surface, as overreactions to bad news and underreactions to good news. This hypothesis implies that when relatively large samples of favorable or unfavorable events are analyzed separately, the immediate price changes induced by these events will be followed by positive returns during the post event period. As the correlations between price changes are low, however, this hypothesis also implies that the responses following individual events are random and that it is not possible to find predictable patterns in stock returns following the arrival of unanticipated information. The implications of the uncertain information hypothesis contradict the overreaction hypothesis of DeBondt and Thaler (1985).

Purpose

The purpose of this research study is to test the impact on the stock price when a firm makes the cover page of a business magazine. We also investigate the impact on the volatility and trading volume of the securities.

Data

The sample is composed of firms that made the cover page of Business between January 1982 and December 1992. The numbers of companies that make the cover of Business Week because of good news or bad news are 205 and 116, respectively, for a total of 321 firms. The classification of the news as good or bad is based on subjective evaluation of the headline and careful reading of the article. Monthly returns and trading volume for each firm are collected from 96 months before the event to 36 months after the event (the event month, $t = 0$, corresponds to the month the firm makes the cover page of Business Week). Sixty months ($t = -96$ to $t = -37$) are employed in the

estimation period, leaving 72 months (t = -36 to t = 36) for the event period. The estimation period is used to compute the parameters alpha and beta of the market model. The event period is used to test the postulated hypotheses. In testing for changes in volatility and trading volume we use pre-event and post-event period of 36 months.

Magazines have a life span of a few days and, therefore, the use of daily data may seem more appropriate for testing the impact on the stock price of making the cover page of Business Week. Our choice of monthly data has been motivated by the need to cover the possibility of early leaks about the company in the weeks before publication. The use of monthly data is also justified by previous research. Several authors have used monthly data. De Bondt and Thaler (1985, 1987) use monthly data in their studies of the overreaction hypothesis. Ikenburry, Lakonishok, and Vermaelen (1995) use monthly data to examine the performance of firm following open market repurchase announcements. Dharan and Ikenburry (1995) also use monthly data to analyze the impact on returns when over-the-counter firms move the trading of their stocks to the American or New York Stock Exchange. It is also argued that the market reaction to news is not always completed over short time periods. The corporate announcements can impact the returns over several years.

Hypotheses

Our first hypothesis is consistent with the overreaction hypothesis. If a company makes the coverage of Business Week because of good news, we postulate that we will find negative returns in the following months. On the other hand, if a company makes the cover of the magazine because of bad news, we expect to find positive returns in the subsequent months. We also postulate that the overreaction hypothesis is asymmetric and that investors tend to react stronger to good news than they do to bad news. Thus, investors bid the stock price up by more when there is good news about a company than they bid the price down when there is bad news. This is because of investors' herd behavior (Pindyck and Rottenberg, 1990) and because of the optimistic nature of individuals, as predicted by experimental psychology.

Even though the event can affect the return of the stock, there is no reason to expect it will also affect its volatility. Thus, a second hypothesis of this paper is that making the cover page of Business Week has no impact on the riskiness of the security. We test this hypothesis using both the total risk, measured by the standard deviation of returns, and the systematic risk, measured by beta.

If making the cover page of a major magazine impacts the trading volume, this link can be important to technical analysis. Authors such as Murphy (1985) and DeMark (1994) emphasize that not only price but also trading volume contains valuable information for investors. We postulate that investors respond to good or bad news about the company by increasing their trading on the stock. Hence, our third hypothesis is that making the cover page of Business Week increases the liquidity of the security.

We test this hypothesis by comparing the pre-event and post-event trading volumes of the firms.

Methodology

The possible price effect of making the cover page of Business Week is investigated with the event study methodology. We analyze both stock excess returns and size adjusted returns, around the date the firm makes it to the cover page of the magazine.

For the excess return approach stock, returns are assumed to follow the market model. The necessary parameters, alpha and beta, are estimated with the method of Fama, Fisher, Jensen, and Roll (1969) using data for the estimation period (months -96 to -37):[1]

(1) $R_{i,t} = \alpha_i + \beta_i R_{m,t} + E_{it}$

where:

$R_{m,t}$ = The return on the market portfolio in month t of the estimation period;
$R_{i,t}$ = The return of stock i in month t of the estimation period;
$E_{i,t}$ = The idiosyncratic return of stock i in month t of the estimation period; and
α_i, β_i = The intercept and beta, respectively.

The abnormal return or excess return is the actual return during the event period minus the return estimated by the market model:

(2) $AR_{i,t} = R_{i,t} - (\alpha_i + \beta_i R_{m,t})$

where:

$AR_{i,t}$ = The estimated abnormal return of stock i in month t of the event period.

Several average excess return measures are constructed. The average portfolio excess return on month t, $XRET_{i,t}$, is defined as follows:

(3) $XRET_t = \frac{1}{n}\sum_{i=1}^{n} AR_{i,t}$

where:

n = The number of stocks in the portfolio.

The cumulative average excess return in the interval covering months n to T is given by:

(4) $CUMRET = \sum_{t=n}^{T} XRE_t$

To test whether the average portfolio excess return is significantly different from zero, the following t-statistic is used:

[1] The firms featured in Business Week are generally large firms that usually pay high dividends. Even though the data used in this study include dividends, we use the Fama, Fisher, Jensen, and Roll market model because it is relatively free of problems associated with inclusions versus exclusions of dividends. We thank to anonymous referee for bringing to our attention this important difference between the Fama, Fisher, Jensen, and Roll model and the simple market-adjusted model.

$$(5)\ t=\frac{XRET_i}{s}$$

where:

s = The standard deviation of the excess returns in the estimation period.

To test whether the cumulative excess return from n to T is significantly different from zero, the following t -statistic is used:

$$(6)\ t=\frac{CUMRET}{s\sqrt{n}}$$

For the size-adjusted return method, we follow Fama and French (1993). We divide the market in ten deciles or ten equally weighted portfolios from the largest to the smallest. (Size is measured by the market value of equity.) We then recompute size-adjusted return as the difference between the actual return of each company in the sample and the return for the market portfolio of the corresponding decile. The cumulative size-adjusted returns and the t-statistics are computed in the same way as for the market excess return approach.

The size-adjusted return method has two important advantages over the excess return method: it does not rely on market efficiency, and it takes into account the company size. It has been argued that returns given by the CAPM are mispriced and that size is an important determinant of a firm's return (Fama and French, 1993).

To test for volatility changes following the month the firm makes the cover page of Business Week, we employ two procedures. First, a difference of statistical comparison (Whiteside, Dukes, and Dunne, 1983) is made of the return standard deviation over the 36 months immediately preceding and following the month the firm makes the cover page. That is, we compute the standard deviation for each stock for a pre-event period and a post-event period, and then we compute average standard deviations for the portfolio of securities for each subperiod and test for difference of means. If making the cover page of Business Week has an impact on the total risk of the securities, we expect the average standard deviations of the pre-event and the post-event portfolios to be statistically different. The second procedure involves the systematic risk (beta) for the 36 months immediately preceding and following the month of the cover page. We generate betas for the pre-event and post-event periods by running the regression of the market model [equation (1)] for each company. We compute average betas for the portfolio of stocks for each subperiod and test for difference of means. If the cover of Business Week affects the systematic risks of the stocks, the mean betas of the pre-event and post-event portfolios will be statistically different.

Finally, to assess empirically the impact of making the cover page of Business Week on the trading volume of the company's stock, we use a procedure similar to those employed by Harris and Gurel (1986) and Bansal, Pruitt, and Wei (1989). For each company, we compute the total trading volume (measure as number of shares traded) for the 36 months preceding and the 36 months following the month the firm

makes the cover page of Business Week. Then we compute the average trading volume for the portfolio of securities for each subperiod and test for difference of means. If making the cover page of Business Week has a differential volume effect, then the average trading volumes of the pre-event and the post-event portfolios must be different in a statistical sense.

Empirical Results and Implications

Tables 1 to 3 present the results of the event study tests. Both excess returns and size-adjusted returns are reported.

Table 1 presents the average excess returns, cumulative average excess returns, size-adjusted returns, and cumulative size-adjusted returns for the whole sample of companies that made the cover page of Business between January 1982 and December 1992. The average excess returns presented in the first three columns of the table are mainly negative. They are negative and statistically significant for the first two months after the event. The cumulative average excess returns for selected intervals, presented at the bottom of Table 1, are also statistically significant negative. The size-adjusted returns, reported in the last three columns of the table, are also negative and statistical significant for the first month after the event. The cumulative size-adjusted returns are also negative and significant .

Table 2 shows the results of the event study for the portfolio of companies that are portrayed positively on the cover page of Business Week. The excess returns are negative after the event and statistically significant in month +1. The cumulative excess returns for selected intervals, at the bottom of Table 2, are negative and significant in a statistical sense. The size-adjusted returns are all negative after the event and statistical significant in month +1. The cumulative size-adjusted returns are also negative and significant.

The results of the event study for companies that made the cover page of Business Week because of bad news are displayed in Table 3. Average excess returns after the event are insignificantly different from zero. Cumulative excess returns for the interval (1, 12) are positive but insignificant. The size-adjusted returns are also insignificantly different from zero. Cumulative size-adjusted returns for the interval (1, 12) are positive but insignificant.

Our results partially confirm our hypothesis, based on the overreaction hypothesis, that the prices of stocks of companies that made the cover page of Business Week because of good news fall after the event and that the stock prices of companies that make the cover page because of bad news rise after the event. Also, the postulated asymmetric reaction of investors to good news and bad news is confirmed by the results. In effect, the t - test for equality of means indicates that the two samples are statistically significantly different at the 5.4 percent level.

The event-study results reported in Tables 2 and 3 do not fit the instinctive hypothesis. Positive news creates significant negative average excess returns in month

Table 1—Performance Measures of All Firms That Appear on the Cover Page of Business Week

Month	Average Excess Return %	T-statistic of Average Excess Return	Cumulative Average Excess Return %	Size-Adjusted Return %	T-Statistic of Size-Adjusted Return	Cumulative Size-Adjusted Return %
(1)	(2)	(3)	(4)	(5)	(6)	(7)
-36	-0.56	-14	-0.56	-0.36	-0.8	-0.36
-30	-0.07	-0.2	-2.46	-0.06	-0.1	-1.62
-24	-0.08	-0.2	-3.76	-0.09	-0.2	-2.82
-18	-0.54	-1.3	-6.07	-0.50	-1.1	-4.72
-12	-0.50	-1.2	-6.17	-0.12	-0.3	-4.33
-10	-0.16	-0.4	-6.14	-0.21	-0.4	-4.51
-5	0.08	0.2	-7.33	-0.05	-0.2	-5.94
-4	-0.40	-1.0	-7.73	-0.40	-0.9	-6.
-3	0.10	0.3	-7.63	0.15	0.3	-6.19
-2	0.39	1.0	-7.24	0.47	1.0	-5.72
-1	-0.31	-.08	-7.55	-0.37	-0.8	-6.09
0	-0.15	-.04	-7.70	-0.29	-0.6	-6.38
1	-0.93	-2.3**	-8.63	-0.93	-2.0**	-7.31
2	-0.71	-1.7*	-9.34	-0.52	-1.1	-7.83
3	-0.06	-0.2	-9.40	-0.24	-0.5	-8.07
4	-0.02	0.0	9.42	0.25	0.5	-7.82
5	-0.28	-0.7	9.70	0.10	0.2	-7.72
10	-0.55	-1.4	-10.93	-0.11	-0.2	-7.95
12	-0.13	-0.3	-11.94	0.02	0.0	-8.95
18	0.29	0.7	-13.83	0.19	0.4	-10.83
24	-0.88	-2.2**	-16.31	-0.79	-1.7*	-12.86
30	0.52	1.3	-17.85	0.18	0.4	-14.69
36	-0.67	-1.6	-20.73	-0.46	-1.0	-16.27

* Significant at the 10 percent level
** Significant at the 5 percent level
*** Significant at the 1 percent level

Month	Cumulative Average Excess Return	T Statistics	Cumulative Size-Adjusted Return	T-Statistics
(-12, -1)	-1.86%	-1.3	-1.88%	-1.1
(1, 12)	-4.22%	-3.0***	-2.55%	-1.7*
(1, 36)	-13.00%	-5.4***	-9.87%	-3.5***

one, while the average excess returns in month one for negative news are positive and insignificant. The empirical findings only partially fit the overreaction hypothesis. We find that good news creates negative excess returns, but contrary to the overreaction hypothesis, bad news produces insignificant excess returns. The results also only partially fit the uncertain information hypothesis. This hypothesis postulates that favorable or unfavorable events induce positive returns in the post-event period. Cumulative excess returns for the (1, 12) month interval are positive for the bad news portfolio but negative for the good news portfolio. The uncertain information

hypothesis also implies, however, that the responses following individual events are random and it is not possible to find predictable patterns in stock returns following the arrival of unanticipated information. In this respect, our results only partially agree with the uncertain information hypothesis. Finally, our event study results partially contradict the efficient market hypothesis, as excess returns are all negative in the post-event period for companies that make the cover page for Business Week because of good news.

Table 2—Performance Measures of Firms that are Positively Presented on the Cover Page of Business Week

Month	Average Excess Return %	T-statistic of Average Excess Return	Cumulative Average Excess Return %	Size-Adjusted Return %	T-Statistic of Size-Adjusted Return	Cumulative Size-Adjusted Return %
(1)	(2)	(3)	(4)	(5)	(6)	(7)
-36	-0.47	-0.8	-0.47	-0.09	-0.1	-0.09
-30	0.38	0.7	2.07	0.61	0.9	-0.70
-24	-0.02	-0.1	-2.88	0.20	0.3	-0.11
-18	-0.81	-1.4	-5.53	-0.79	-1.2	-1.57
-12	-0.63	-1.1	-6.11	0.11	0.2	-0.48
-10	-0.09	-0.2	-6.74	0.13	0.2	-0.09
-5	0.38	0.7	-7.23	0.28	0.4	-1.45
-4	-0.39	-0.7	-7.62	-0.22	-0.3	-1.67
-3	0.30	0.5	-7.32	0.67	1.0	-1.00
-2	0.90	1.6	-6.42	0.86	1.3	-0.14
-1	-0.01	0.0	-6.43	0.03	0.0	-0.11
0	0.75	1.3	-5.68	0.95	1.4	0.84
1	-1.78	-3.1***	-7.46	-1.78	-2.7***	-0.94
2	-0.81	-1.4	-8.27	-0.45	-0.7	-1.39
3	0.31	0.5	-7.96	0.10	0.1	-1.29
4	-0.81	-1.4	-8.77	-0.30	-0.5	-1.60
5	-0.48	-0.8	-9.25	0.02	0.0	-1.58
10	-0.70	-1.2	-12.44	-0.15	-0.2	-2.91
12	-0.75	-1.3	-14.46	-0.48	-0.7	-4.55
18	0.48	0.8	-15.70	0.62	0.9	-4.84
24	-0.94	-1.6	-18.07	-0.92	-1.4	-6.54
30	-0.29	-0.5	-20.15	-0.51	-0.8	-8.72
36	-0.33	-0.6	-22.55	-0.05	-0.1	-9.50

* Significant at the 10 percent level
** Significant at the 5 percent level
*** Significant at the 1 percent level

Month	Cumulative Average Excess Return	T Statistics	Cumulative Size-Adjusted Return	T-Statistics
(-12, -1)	0.04%	-0.5	0.48%	0.2
(1, 12)	-8.78%	-4.4***	-5.39%	-2.3**
(1, 36)	-16.81%	-4.9***	-10.32%	-2.6**

Table 3—Performance Measures of Firms that are Negatively Presented on the Cover Page of Business Week

Month	Average Excess Return %	T-statistic of Average Excess Return	Cumulative Average Excess Return %	Size-Adjusted Return %	T-Statistic of Size-Adjusted Return	Cumulative Size-Adjusted Return %
(1)	(2)	(3)	(4)	(5)	(6)	(7)
-36	-1.10	-1.7*	-1.10	-1.38	-1.8*	-1.38
-30	-3.8	-0.6	-2.95	-0.87	-1.1	-4.12
-24	0.56	0.9	-3.79	.14	0.2	-5.82
-18	-0.23	-0.4	-6.26	-0.13	-0.2	-9.13
-12	-0.51	-0.8	-6.07	-0.51	-0.7	-10.18
-10	-0.55	-0.9	-5.51	-0.92	-1.2	-10.33
-5	0.43	0.7	-8.20	0.10	0.1	-13.58
-4	-0.21	-0.3	-8.41	-0.43	-0.6	-14.07
-3	-0.84	-1.3	-9.25	-1.13	-1.5	-15.20
-2	-0.68	-1.1	-9.93	-0.52	-0.7	-15.72
-1	-0.97	-1.6	-10.92	-1.13	-1.5	-16.85
0	-1.04	-1.6	-11.96	-1.34	-1.8*	-18.12
1	0.02	0.0	-11.94	-0.09	-0.1	-18.28
2	-1.00	-1.6	-12.94	-1.47	-1.9*	-19.75
3	0.00	0.0	-12.94	-0.20	-0.3	-19.95
4	0.91	1.4	-12.03	0.54	0.7	-19.41
5	0.28	0.9	-11.75	0.37	0.5	-19.04
10	-0.26	-0.4	-9.05	-0.40	-0.5	-17.03
12	0.11	0.2	-10.26	0.05	0.1	-18.37
18	0.02	0.0	-13.23	-0.51	-0.7	-23.32
24	-1.31	-2.1**	-17.13	-1.38	-1.8*	-27.30
30	1.97	3.1**	-17.36	1.21	1.6	-28.49
36	-1.11	-1.17*	-21.15	-1.26	-1.7*	-32.10

* Significant at the 10 percent level
** Significant at the 5 percent level
*** Significant at the 1 percent level

Month	Cumulative Average Excess Return	T Statistics	Cumulative Size-Adjusted Return	T-Statistics
(-12, -1)	-5.37 %	-2.55***	-7.13 %	-2.7***
(1, 12)	1.69 %	0.8	-0.18 %	-0.1
(1, 36)	-9.19 %	-7.4	-13.89 %	-3.1***

Our results are robust with respect to market efficiency, because the event study results obtained with the market model are confirmed by those obtained with the size-adjusted return method. The size-adjusted return approach does not rely in the capital asset pricing model and does not require efficient markets portfolios.

Table 4 presents the results of the tests of price volatility as measured by the standard deviation. For the companies with good news, in panel A, we find a decrease in standard deviation in the post-event period. For the companies with bad news, in panel B, we find an increase in the standard deviation in the post-event period. Both the

Table 4—Difference of Mean Test of Security Volatility (Standard Deviation) Changes Following the Cover Page of Business Week

	Mean Standard Deviation	Standard Error	Test Statistic
Panel A: Good News (n = 205 companies)			
Post-Event	0.086544	0.027571	-
Pre-Event	0.089003	0.025900	-
Mean Difference	-0.002459	0.002642	-0.931
Panel B: Bad News (n = 116 companies)			
Post-Event	0.092065	0.040238	-
Pre-Event	0.090843	0.027588	
Mean Difference	0.001222	0.004530	0.270

increase and the decrease, however, are statistically insignificant. With respect to the systematic risk, we report in Table 5 an increase in the beta of both the portfolios of companies with good news and companies with bad news. The increases, however, are statistically insignificant. These results confirm our second hypothesis that making the cover page of Business Week has no impact on the volatility of the stock.

Table 6 presents the results of the tests of changes in liquidity. The trading volume increases in the post-event period, for both the companies with good news and the companies with bad news. The increases in trading volume are large and statistically significant. These results confirm our third hypothesis that making the cover page of Business Week increases the liquidity of the stock.

The increase in liquidity in the post-event period for both good and bad news portfolios seems to fit the firm advertising effect hypothesis. Under this hypothesis, bringing the company's name to mind for investors would increase trading volume. This means that portfolio managers take the news as a mental product to rebalance their portfolios or rethink their strategies. The higher trading volume in the post-event period is an important result for technical analysis. This investment strategy postulates that not only price, but also the volume of trade contains relevant information for investors. For a technical analyst a price increase or a price decrease accompanied with an increase or a decrease in trading volume is more important than price changes without changes in liquidity.

Conclusions

In this paper we examine the impact of making the coverage of a major magazine, such as Business Week, on the price, volatility, and liquidity of the stock. Our results indicate that for the post-event period the excess returns are negative and statistically significant in month +1 for the portfolio of companies that made the cover page of the magazine because of good news. On the other hand, the excess returns are insignificantly different from zero for the portfolio of companies that made the cover page of Business Week because of bad news.

Table 5—Differences of Mean Tests of Security Systematic Risk (Beta) Changes Following the Cover Page of Business Week

	Mean Beta	Standard Error	Test Statistic
Panel A: Good News (n = 205 companies)			
Post-Event	1.070513	0.531169	-
Pre-Event	1.044991	0.455317	-
Mean Difference	0.025522	0.048863	0.522
Panel B: Bad News (n = 116 companies)			
Post-Event	1.121417	0.483072	-
Pre-Event	1.112791	0.417932	-
Mean Difference	0.008626	0.059308	0.145

Table 6—Differences of Mean Tests of Security Trading Volume Changes Following the Cover Page of Business Week

	Mean Trading Volume	Standard Error	Test Statistic
Panel A: Good News (n = 205 companies)			
Post-Event	12,066,738	11,806,682	-
Pre-Event	8,823,462	8,782,163	-
Mean Difference	3,243,276	1,032,773	3.14***
Panel B: Bad News (n = 116 companies)			
Post-Event	11,117,513	10,125,619	-
Pre-Event	7,878,504	8,039,565	-
Mean Difference	3,239,009	1,200,441	2.70***

These results only partially confirm our first hypothesis, based on the overreaction hypothesis, that when a company appears on the cover page of a major magazine it is generally too late to conduct the trading strategy suggested by the type of news that put the company on the cover page. That is, it is too late to buy if the news about the company is good, and it is too late to sell if the news is bad.

The event study results do not fit the instinctive hypothesis, under which good news creates positive excess returns and bad news creates negative excess returns. The results also partially fit the uncertain information hypothesis that postulates that favorable or unfavorable events induce positive excess returns in the post-event period.

We find that making the cover page of Business Week has no impact on the volatility of the stock. In effect, both total risk, measured by the standard deviation, and systematic risk, measured by beta, experienced only small and statistically insignificant changes after the company appeared on the cover of the magazine. Nevertheless, the combination of negative excess return and an increase in the systematic risk in the post-event period may demote the attractiveness of the stocks with good news even further.

Finally, we report that making the cover page of Business Week increases the liquidity of the stock. This is true for both the companies with good news and the companies with bad news. This results seems to fit the firm-advertising-effect hypothesis, under which any news about the company, good or bad, increases the

volume of trading of the company's stock. The increase of liquidity in the post-event period is important for technical analysis, which postulates that not only price but also trading volume contains relevant information to investors.

References

1. Bansal, V., S. Pruitt, and K.C. Wei, "An Empirical Reexamination of the Impact of CBOE Option Initiation on the Volatility and Trading Volume of the Underlying Equities: 1973-1986," *Financial Review*, 24 (1989), pp. 19-29.

2. Brown, K., and W. Harlow, "Market Overreaction: Magnitude and Intensity," *Journal of Portfolio Management*, 14 (1988), pp. 6-13.

3. Brown, K., W. Harlow, and S. Tinic, "Risk, Aversion, Uncertain Information and Market Efficiency," *Journal of Financial Economics*, 22 (1988), pp. 355-385.

4. Chan, K.C., "On the Contrarian Investment Strategy," *Journal of Business*, 81 (1988), pp. 147-163.

5. Dharan, Bala G., and David L. Ikenberry, "The Long-Run Negative Drift of Post-Listing Stock Returns," *The Journal of Finance*, no. 5 (1995), pp. 1547-1574.

6. DeBondt, W., and R. Thaler, "Does the Stock Market Overreact?" *Journal of Finance*, 40 (1985), pp. 793-805.

7. DeBondt, W., and R. Thaler, "Further Evidence on Investor Overreaction and Stock Market Seasonality," *Journal of Finance*, 42 (1987), pp. 557-581.

8. DeMark, T.R., *The New Science of Technical Analysis* (John Wiley and Sons, Inc., 1994)

9. Fama, E., L. Fisher, M. Jensen, and R. Roll, "The Adjustment of Stock Prices to New Information," *International Economic Review* (1969), pp. 1-21.

10. Fama, Eugene F., and Kenneth R. French, "Common Risk Factors in the Returns on Stocks and Bonds," *Journal of Financial Economics*, no. 33 (1993), pp.3-56.

11. Harris, L., and E. Gurel, "Price and Volume Effects Associated with Changes in the S&P500 List: New Evidence for the Existence of Price Pressures," *Journal of Finance*, 41 (1986), pp. 815-829.

12. Ikenberry, David, Josef Lakonishok, and Theo Vermaelen, "Market Underreaction to Open Market Shares Repurchases," *Journal of Financial Economics*, no. 39 (1995), pp. 181-208.

13. Jegadeesh, N., "Evidence of Predictable Behavior of Security Returns," *Journal of Finance*, 45 (1990), pp. 881-898.

14. Kahneman, D., and A. Tversky, "Intuitive Prediction: Biases and Corrective Procedures," in *Judgment Under Uncertainty: Heuristics and Biases* (New York Cambridge University Press, 1982).

15. Lehman, B., "Fads, Martingales, and Market Efficiency," *Quarterly Journal of Economics*, 105 (1990), pp. 1-28.

16. Lo, A. and C. MacKinlay, "When are Contrarian Profits Due to Stock Market Overreaction?" *Review of Financial Studies*, 3 (1990), pp. 175-205.

17. Murphy, J.J., *Technical Analysis of the Futures Market* (New York Institute of Finance, Prentice Hall, 1985).

18. Pindyck, R., and J. Rottenberg, "The Excess Comovement of Commodity Prices," *Economic Journal* (1990), pp. 1173-1189.

19. Whiteside, M., W. Dukes and P. Dunne, "Short-Term Impact of Option Trading on Underlying Securities," *Journal of Financial Research*, 6 (1983), pp. 313-321.

20. Zarowin, P., "Size, Seasonality, and Stock Market Overreaction," *Journal of Financial and Quantitative Analysis*, 25 (1990), pp. 113-125.