

Emotion can betray poor outlook

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Negative emotion in earnings calls hints that targets will be missed, finds study

DURHAM, NC -- Analysts have closely watched the speeches by leading players at this week's Democratic National Convention, looking for hints of division within the party. If similar scrutiny is applied to earnings calls, investors can predict which companies are about to miss their forecasts, according to new research by the Duke University Fuqua School of Business.

Using voice analysis software on a sample of conference calls, two researchers used vocal cues to measure the emotional state of management. They found CEOs and CFOs displaying a large amount of negative emotion are less likely to meet or beat earnings forecasts over the next three quarters.

The software was originally developed by Israel for use as a lie detector, but is now employed for commercial purposes, such as call center monitoring and healthcare applications. It analyzes speech for cues - such as stress, thought processes and emotional reactions - that may indicate a negative emotional state.

But investors are slow to pick on the signals. When management displays negative emotion, the stock price does not fall straight away. 'We don't find the stock price going down immediately at the time of the earnings announcement,' says William Mayew, one of the researchers and assistant professor of accounting at Duke.

The report finds that investors do eventually factor in the signals, however. Companies showing negative emotion have a lower stock price after 180 days than comparable ones displaying less negative emotion in earnings calls.

There is money to be made in voice analysis of earnings calls, according to Mayew. 'A day after the conference call, if you bought firms with the lowest 10 percent of negative scores and sold short the firms with the highest 10 percent, you would make about 9 percent over a 180 day period,' he explains.

By [Tim Human](#)