



Investigating the Effect of Stock Price Valuation Anchors on Standard Unexpected Earnings

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1. Introduction

In financial markets, accurate analysis of financial information plays a crucial role in determining stock prices and helps investors better predict stock market trends. This importance becomes even more pronounced when investors face time constraints and limited information. Time limitations can prevent investors from thoroughly reviewing company data and financial reports, which, in turn, affects the accuracy and quality of their decision-making. Furthermore, the lack of comprehensive and complete information represents another significant challenge for investors, as the information available to them is often limited and may not provide a full picture of a company's financial status and performance.

Individuals' cognitive limitations also play an important role in financial decision-making. Due to mental and cognitive constraints, investors may make errors when analyzing financial data, resulting in decisions influenced by cognitive biases. These biases can lead to misinterpretation of crucial information, causing decisions that do not fully align with financial realities. The impact of cognitive factors is particularly evident in stock price evaluation processes, making this one of the most challenging areas in capital market analysis.

Unexpected earnings are recognized as vital information for investors, as they can provide significant signals about a company's actual condition and help investors make better-informed decisions. However, investors may misinterpret these earnings and related information due to evaluation anchors and perceptual biases. Examining the interaction between investors' mental perceptions and actual financial data can reveal hidden and less-known aspects of their behavior, thereby contributing to a more precise analysis of their decision-making processes.

2. Research Hypothesis

The primary objective of this study is to examine the impact of stock price evaluation anchors on standardized unexpected earnings. Accordingly, the main hypothesis is formulated as follows:

Stock price evaluation anchors have a significant effect on standardized unexpected earnings.

This hypothesis is based on the notion that investors rely on mental reference points or past prices when evaluating stock prices. Such cognitive anchoring may lead to misinterpretations of actual company information. In other words, excessive focus on evaluation anchors can divert investors' decisions from the stock's true value, resulting in variations in the estimation of unexpected earnings.

3. Methodology

This study analyzed 157 companies listed on the Tehran Stock Exchange during the period 2013–2022. The collected data included companies' financial information and standardized unexpected earnings. The data were selected to enable a precise examination of the impact of stock price evaluation anchors on unexpected earnings.

Data analysis was conducted using EViews version 13, and statistical models were estimated using multiple regression with panel data. The use of panel data allowed the analysis to account for both temporal effects and inter-company differences. The research design was developed to investigate the influence of evaluation anchors on standardized unexpected earnings accurately and reliably, providing clear insights into investor behavior.

4. Research Findings

The results indicate that stock price evaluation anchors have a significant impact on standardized unexpected earnings. In other words, when faced with financial information and unexpected earnings, investors tend to make

analyses and decisions based on their mental reference points, which alters their estimations of unexpected earnings.

This cognitive bias can lead to changes in investors' decisions, such that their buying and selling actions are influenced by mental evaluations and may not fully align with the stock's actual value. The findings emphasize that financial analysis should consider not only numerical data and formal reports but also the cognitive and psychological aspects of investors.

5. Discussion and Conclusion

The study's findings demonstrate that stock price evaluation anchors and the resulting cognitive biases have a notable effect on standardized unexpected earnings and investors' financial decisions. This highlights the importance of considering cognitive errors in financial analyses and indicates that investor behavior is influenced not only by financial data but also by psychological and cognitive factors.

Based on the findings, it is evident that investors may rely on their mental reference points when interpreting important financial information and unexpected earnings, leading to deviations from actual company financial realities. Therefore, paying attention to the interaction between investors' mental perceptions and actual financial data can help better identify their behavior and improve the decision-making process, enhancing the accuracy and efficiency of financial analyses

Keywords: Stock price valuation anchors, standard unexpected earnings, cognitive errors, anchoring bias.