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Exploring the Influence of Post-Earnings Announcement Drift and Investor Sentiments on Investor Trading Behavior: A Qualitative Analysis

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ABSTRACT

"Post-Earnings-Announcement Drift" is a market phenomenon, which refers to investors' tendency to overreact to the earnings announcements in conducting their investment decisions. However, this effect shows up gradually over the whole period that stock of the company is being sold out following a bullet earnings surprise. Form radically different treatments from the efficient market hypothesis (EMH), where prices of stocks will be able to quickly and fully adjust to any new coming information, it takes time for the drift to reveal itself. This happens as a slow and eventual process. This research study investigates the impact of investor sentiments and post earnings announcements drift on investor trading behavior within the Pakistan stock market context. Twelve participants that comprises of institutional and individual investors, were selected using the convenience sampling methods. Semi-structured interviews were conducted to explore the fluctuations in stock prices, investment strategies, and the market conditions. NVivo software was employed to analyze the interview transcripts, revealing themes related to the fundamental analysis, dividend importance, decision-making strategies, sources of information, investor sentiments, earnings announcements, stock pricing, information leakage, and the market anomalies. The findings highlight the significance of both the rational analysis and emotional responses in investment decisions, the importance of timely earnings disclosures, and the presence of market anomalies and the information leakage.

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1.0 Introduction

Announcements of the earnings give investors a crucial data that is related to the appraising of the company. Therefore, when the actual data differ from the widely expected ones either to the extent of being better or worse, a characteristic reaction of the stock market should be noticeable. The first well-recorded relationship between earnings surprises and stock market responses, is presented by (Ball & Brown, 2013). This had promised the most concerted research effort in accounting history (Lev, 1989). A number of more than 1000 papers have been written over 30 years of studies about the correlation between capital markets and financial statements (Kothari, 2001) which is the stream of the research originates from (Brown, 1968) Companies' (surprises) have an influence on firm valuation. Persistent, unusual returns may also be inconsistent with the efficient market hypothesis (Fama, 1975). The (semi-strong form of the) efficient market hypothesis (EMH) posits that all factual information that is publicly available will be instantaneously impounded in the price, and as a result, no market participant would be expected to gain abnormal excess returns in the long-run. Challenges to the EMH which contradict the conventionally accepted theory will be treated as anomalies.

The PEAD (Post-Earnings-Announcement Drift), which (Fama, 1998) refers to as the "granddaddy of underreaction events, is probably the most puzzling anomaly in finance. PEAD means that stock prices will tend to keep moving up (down) after the quarterly earnings were reported as they have exceeded (not met) expectations. This is what gives this phenomenon other names such as 'the SUE-effect', for standardized unexpected earnings (the others call it the 'earnings momentum effect'). It was first clearly demonstrated by (Bernard & Thomas, 1989, 1990). Stocks react to earnings surprises with price adjustment due to the new information that is revealed in the announcement. Nevertheless, it is not the full-fledged adjustment that takes place immediately. Empirical evidences indicate that the trend does take up to a few months to stabilize, which, in turn, explains the special drift of stock prices. The drift direction and magnitude has a direct correlation with the earnings surprise. Grouping the universe of stocks into quantile portfolios with successively larger positive to negative earnings surprises results in these quantile portfolios being highly correlated with the direction and magnitude of the drift. Furthermore, the economic effect of the drift needs to be highlighted. Initially data show that implementation of the strategy of zero-investment portfolios with the longest duration in stocks with the best (worst) earnings surprise will generate annualized abnormal returns of 18% (Bernard & Thomas, 1989). Essentially, two distinct explanation categories underlie the concept of drift (Kothari, 2001). The initial classification suggests that drift stems from the methodological biases which originate from the measurement inaccuracies and flaws in a research design. Conversely, the second classification posits that drift serves as a tangible evidence of market inefficiency which thereby indicates an investors' inept handling of an information processing (Ball & Brown, 2013).

In our research, a qualitative methodological framework was applied through the use of rigorous thematic analysis guidelines which is provided by Braun and Clarke (2006). The study evaluated the impact of sentiments and post earnings announcement on investor trading in, by taking an inductive, experiential and essentialist approach to the theory of action. The semi-structured interview built a complex picture of the changes in the prices of the stocks, the types of investments made, the market conditions. In the next step, we have transcribed the interviews verbatim to capture the nuances including the overlapping speech and pauses, while maintaining the strict confidentiality. The data analysis was segmented in to six stages and are familiarizing with the data, making the initial codes, identifying the themes, reviewing and refining themes, defining and naming these themes, and finally supporting the results with previous results. Through our process oriented investigation, we were able to discover the sentiments of investors related to announcements and trading within the stock exchange of Pakistan.

The information which was gathered from investors who are in fact involved in investing in the stock market of Pakistan brings in a good source of information because it brings forward the ways in which they behave, perceive, and the way market process. The majority of the interviews which were conducted at the same level allowed the respondents to concentrate on the distinction between the fundamental approach and the technical approach to making the decision on investments thus exhibiting the different approaches to the investment which the different investors adopted. Moreover, an emotional component in investors' sentiment gives rise to a curiosity concerning which of the analytical and the emotional thought processes guide investment decisions in a peculiar fashion imbued with uniqueness. Furthermore, evidence of an earnings announcements is also useful in relation to how investors react to corporate disclosures and the effect on stock pricing, as well as discussions about market anomalies vindicating the difficulties that require gaining from market inefficiencies and the positive aspects.

The primary aim of this research study is to explore the influence of investor sentiment and the post-earnings announcement drift on investor trading activities. This study offers several noteworthy contributions: Firstly, despite the emergent interest in this area, there remains a dearth of understanding regarding the dynamics of drift in the traded stock markets. Our investigation is conducted within the framework of the Pakistan Stock Exchange by shedding light on this relatively unexplored field. Secondly, while previous studies such as "Anchoring and stock market behavior" (Uddin et al., 2021), "Belief diversity and price informativeness around earnings announcements" (Chen, 2023) and "Earnings management and dividend policy" (Ahmad et al., 2021) have made significant strides, our study seeks to address a crucial research gap by delving into the impact of investor sentiment and post-earnings announcement drift on trading behavior. This sets our research apart from existing literature. Thirdly, we employ a qualitative approach, specifically semi-structured interviews, to gauge the influence of these variables on investor trading. This method allows us to capture the nuanced sentiments of investors, thereby enhancing the richness and value of our research findings and contributing to the existing body of knowledge.

This paper is organized as follows: Section 2 delves into the "Literature Review," which focuses on the investor sentiment, post-earning announcement drift, and an investor trading. Section 3 presents a detailed overview of the "Methodology," which outlines the data type, procedural steps, and an analytical approach employed in this study. Subsequently, Section 4 delves into the discussion and the findings derived from qualitative analysis. Finally, Section 5 encapsulates the conclusion, delineates the limitations of the study, and proposes avenues for a future research.

2.0 Literature Review

This section summarizes the studies conducted on the impact of investor trading and post earnings announcement drift on investor trading.

2.1 Investor Sentiment and investor trading

In the world of finance, understanding investor sentiment is crucial for making informed decisions. Practitioners and analysts dedicate significant resources to extract investor sentiment measures, which help gauge levels of pessimism or optimism prevalent in the market (Chau et al., 2016). The motivation behind this effort lies in the desire to gain a competitive edge and make informed investment decisions. By understanding the prevailing sentiment, investors can assess market sentiment risks, anticipate the movements of market and adjust their portfolios accordingly. In financial markets, sentiment-driven investors possess a unique ability to trade against the herd. Contrary to popular belief, these investors capitalize on overinflated prices which results from excessive bullishness by selling, and conversely, they seize opportunities presented by the pessimism-driven price declines. Investor sentiment can range from optimism and enthusiasm during bull markets to fear and pessimism during bear markets. Sentiment indicators, such as surveys, media sentiment analysis, and social media data, are commonly used to gauge the prevailing sentiment among the investors. The trading behavior of investors, that is the actions and decisions made by an investors when buying and selling securities have a more significant impact on the investment performance than the prevailing sentiment in the market. Investor sentiment plays an important role in shaping financial markets and influencing investor trading behavior (Baker & Wurgler, 2007).

Investor sentiment has been found to have a significant impact on investor trading decisions (PH & Uchil, 2020). Studies have shown that during periods of high optimism, investors tend to exhibit higher trading volumes and a propensity for buying assets. Conversely, during periods of pessimism, trading volumes decrease, and investors may be more inclined to sell their holdings. These behavioral patterns can create market inefficiencies and contributes to price momentum or reversals. Sentiment of an investor can influence investors' perception of risk and the reward which leads to a shift in their willingness to take on investment positions. When sentiment is positive, investors may be more willing to take on riskier investments, leading to increased buying activity. Conversely, during periods of negative sentiment, risk aversion may prevail which leads to selling pressure. On the other hand, sentiment contagion can occur in financial markets. Investors often rely on social cues and the behavior of others when making investment decisions. Positive sentiment can create a herd mentality, where investors follow the crowd and engage in buying activities. Similarly, negative sentiment can lead to panic selling as investors react to the prevailing pessimism. These herd behaviors can amplify market movements and create the periods of heightened volatility.

2.2 Post Earning Announcement drift and Investor trading:

Livnat and Mendenhall (2006) argue that understanding the magnitude of post-earnings-announcement drift is crucial for comprehending the nature of the anomaly. They propose that two distinct sets of investors, small and large traders, contribute to the post-announcement drift by using different earnings expectation models but failing to fully react to earnings news. The researcher suggest that small traders rely on seasonal random-walk-based earnings expectation models but underreact to the corresponding surprises, leading to the post- announcement drift associated with seasonal random-walk-based earnings surprises (RW drift) (Jiang et al., 2020). On the other hand, large traders base their earnings expectations on analyst forecasts but also fail to fully react to analyst-based earnings surprises, resulting in the drift associated with analyst-based earnings surprises (AF drift).

Studies by (Battalio & Mendenhall, 2005); Lee (2001) and Hirshleifer et al. (2009) indicate that small traders tend to be net buyers irrespective of the direction of the earnings surprise. Barber and Odean (2008) argue that retail investors are heavily influenced by the "news attention" effect, leading to buying when a company is in the news. Based on their hypotheses, Livnat and Mendenhall propose that if small and large traders' activities contribute to the RW and AF drifts, respectively, there should be a relationship between the two drifts and the respective trading intensity of small and large traders around earnings announcements. They expect that more thorough assimilation of earnings news and intense trading around earnings announcements would result in lower magnitudes of the RW and AF drifts.

3.0 Methodology

3.1. Participants

12 investors participated in the study (Age mean 46.5, range 42-60) from institutional and individual sources from the Pakistan stock market were chosen for the study. Individual investors invest and manage their savings in small stocks for return maximization. On the other hand, institutional investors are specialized financial institutions that handle other people's savings and invest them to maximize returns while maintaining a reasonable degree of risk (Davis & Steil, 2004). Out of the twelve investors, the 8 were institutional investors whereas the rest 4 were the individual investor.

Aligned with the theoretical assumptions of the qualitative methodologies (Braun & Clarke, 2006). The convenience sample method was employed because of the investors' limited availability resulting from their demanding schedules and their hesitancy to provide details regarding their employment. The inclusion criteria expanded to encompass both the institutional and the individual investors. The emphasis remained on the individuals actively engaged in the financial activities, fostering an exploration of the decision-making dynamics regardless of gender. All interviews were done in Islamabad due to the presence of a stock market and investment firms.

3.2. Procedure

The data illustrated in this study originated from the individual interviews conducted by authors with investors. The semi-structured interview format was utilized to analyze the fluctuations in stock prices in relation to earnings announcements, strategies for investment, and market conditions of the participants in the Pakistan stock market. The interviews commenced with the broad introduction, followed by the targeted questions designed to extract the participants' experiences and perspectives. Additionally, unique or specialized aspects were explored in more detail. The interview facilitated the exploration of more pertinent matters as they emerged, while concurrently upholding a coherent sequence and structure of the interview questions. The duration of the face-to-face interviews ranged from 30 minutes to a full hour. The objective was to pose appropriate inquiries in order to extract insights on the interviewees' conduct and their perspectives on the market. The study was able to protect participant confidentiality by providing them with a code that made them anonymous. With the interviewee's cooperation, 10 interviews were digitally recorded, while those who decided not to have their interviews recorded were manually recorded.

3.3. Data analysis

3.3.1. Transcription of interviews

The data underwent the verbatim transcription process, capturing the content, instances of the overlapping speech, an untimed pause (with distinctions made between the long and the short pauses), interruptions, and the backchannels. Because of their usual non-constituent role in turn-taking, the Backchannels, like "yeah" and "mm," were recorded but not included in an analysis. This thorough transcription aims to preserve the intricacies of communication, ensuring an accurate foundation for further research and interpretation.

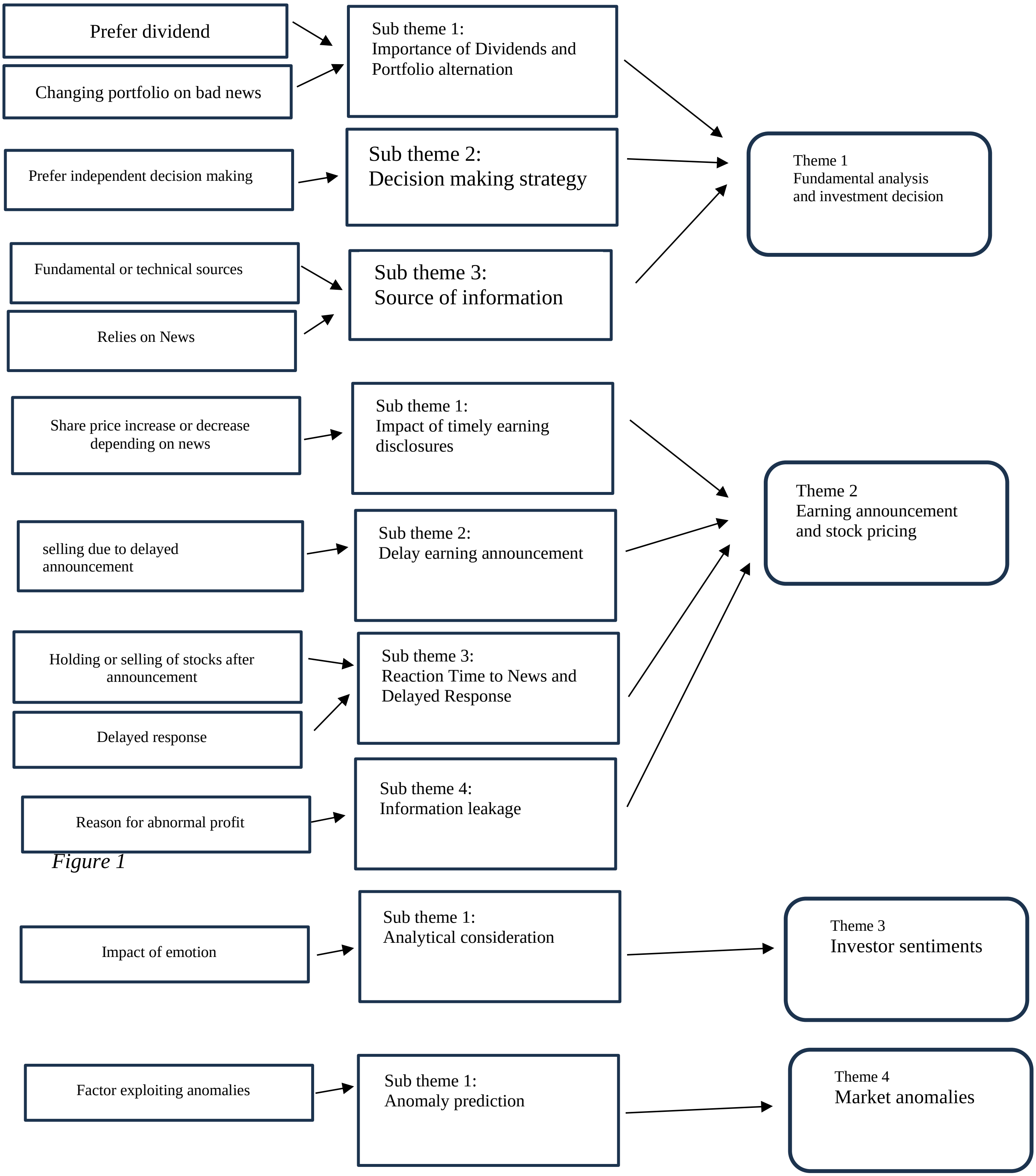
3.3.2. The Analytical method

We employed a thorough and methodical Thematic Analysis (TA) methodology, adhering to the recommendations of (Braun & Clarke, 2006). Our study examined the impact of timing and emotions in earnings announcements on investor trading behavior, with a focus on an inductive, experiential, and essentialist theory of action. The audio interview recordings were accurately transcribed and then subjected to a comprehensive six-phase analysis that followed the recommendations for a rigorous theme analysis.

Thematic analysis has six steps: (1) familiarize yourself with the data: Become familiar with the data by reading the transcripts in their entirety and making sure you comprehend the information. (2) generate initial codes: Next, codes were created to describe the investment experiences of the investors at the pre and post earnings announcement of company. Notable quotes were extracted from interviews that demonstrated a particular code. (3) search for themes: In the successive research team meetings, authors integrated the themes with the relevant content to reinforce each theme, ensuring the thorough data saturation. (4) review themes: Examine and refine the themes that have been identified to make sure they are consistent, coherent, and pertinent to the goals of the research. (5) define and name themes: Clearly identify and characterize the themes, emphasizing how they represent the investing experiences that accompany corporate earnings releases and (6) produce the report: Based on the following stage of the thematic analysis methodology, a thematic map was created by organizing the completely developed topics. This made it easier to investigate the relationships between different codes and themes that emerged during the data processing process (Braun & Clarke, 2006).

4.0 Discussion and Findings

The findings, analysis, and exemplar quotations are outlined below. We provide the results according to the four thematic categories that we took out of our interview data shown in figure 1.


Prefer dividend
Changing portfolio on bad news
Sub theme 1:
Importance of Dividends and
Portfolio alternation
Prefer independent decision making
Sub theme 2:
Decision making strategy
Theme 1
Fundamental analysis
and investment decision
Fundamental or technical sources
Relies on News
Sub theme 3:
Source of information
Share price increase or decrease
depending on news
Sub theme 1:
Impact of timely earning
disclosures
selling due to delayed
announcement
Sub theme 2:
Delay earning announcement
Theme 2
Earning announcement
and stock pricing
Holding or selling of stocks after
announcement
Delayed response
Sub theme 3:
Reaction Time to News and
Delayed Response
Reason for abnormal profit
Sub theme 4:
Information leakage
Figure 1
Impact of emotion
Sub theme 1:
Analytical consideration
Theme 3
Investor sentiments
Factor exploiting anomalies
Sub theme 1:
Anomaly prediction
Theme 4
Market anomalies

Theme 1: Fundamental analysis and investment decision

This theme focuses on assessing the effectiveness of the investment strategies employed by the participants. By evaluating the performance and results of their investment strategy, it provided an opportunity to understand the strengths, weaknesses, and overall efficacy of their decision-making process. The study of the interviews yielded significant results, indicating that approximately 33.33% of investors strongly favor employing fundamental analysis when making investment decisions. According to one interviewee (Interviewee 9),

"In Pakistan, technical analysis is not widely practiced. The majority of investors here lack the necessary education and knowledge of technical analysis. Instead, they rely on fundamental analysis and closely monitor news that influences the market".

Moreover, it was found that about 33.33% of investors primarily rely on technical analysis and consider capital gains when approaching their investments which is consistent with a survey conducted by Lui and Mole (1998) among exchange market dealers in Hong Kong revealed that technical analysis is particularly appealing for shorter-term trading. Additionally, some investors expressed a preference for utilizing both fundamental and technical analysis in their investment strategies. As stated by an individual investor (Interviewee 2),

"I employ both fundamental and technical analysis for my investment evaluation. However, in the current political and economic market conditions, technical analysis does not provide reliable insights into its performance. Therefore, I consider fundamental analysis to be more significant."

The responses revealed a range of perspectives, with some investors emphasizing fundamental analysis, meticulously studying financial statements and economic indicators to evaluate the intrinsic value of stocks. On the other hand, some investors leaned towards technical analysis, relying on historical price patterns and market indicators to identify trends and determine optimal entry and exit points. Additionally, a subset of investors embraced a hybrid approach, combining both fundamental and technical analysis to gain a comprehensive understanding of the market.

Sub theme 1: Importance of Dividends and Portfolio alternation:

This theme of "Importance of Dividends and portfolio alternation" focuses on the widespread preference for a dividend-oriented investments among a considerable number of investors. The interviews also highlighted investors' inclination to adjust their portfolios during periods of negative announcements. Interviewee 2 stated,

"I made the decision to divest from that stock in my portfolio. Despite my emotional attachment to a few stocks, persistent negative earnings and a significantly low book value compelled me to sell a specific stock".

The 91.67% of the respondent made changes to their investment portfolios in response to negative earnings announcements. These investors recognized the impact of poor earnings results on the value and future prospects of the companies they had invested in. As a result, they took proactive measures to adjust their portfolios by selling or reducing their holdings in the affected stocks. The decisions were likely driven by a desire to mitigate potential losses and minimize exposure to underperforming investments. The 8.33% of the respondent took a different approach.

This particular investor acknowledged the negative earnings announcement but chose to retain their holdings in the affected stocks. Their decision might have been influenced by factors such as a long-term investment strategy, faith in the company's ability to recover, or a willingness to tolerate short- term fluctuations in the pursuit of potential future gains. Another intriguing revelation from the investor interviews was that a considerable number of investors prefer dividend-oriented investments. One interviewee stated,

"I prefer dividends that surpass the bank's interest rate."

This preference aligns with (McCluskey et al., 2006) findings, which suggest that investors highly value receiving dividends and perceive them as an indicator of a firm's future performance. The 75% of the respondent expressed a preference for dividends when investing in companies or considered dividends as a crucial factor in their investment decisions. The 6.67% of the respondent demonstrated a different perspective. These investors likely prioritize potential price appreciation and growth opportunities, seeking to maximize returns through stock price movements rather than relying on dividend income. The divergent preferences highlighted in the interviews indicate that investors have different investment objectives and priorities when it comes to dividends. While some prioritize the stability and income generated by dividends, others may prioritize short-term gains or have alternative investment strategies in mind.

Sub theme 2: Decision making strategy

This theme of "Decision making strategy" focuses into the decision-making strategies which were employed by investors, shedding light on their preferences regarding the independent versus advisor-guided approaches. The 75% of my respondent expressed a strong inclination towards independent decision making, indicating a preference for autonomously evaluating and determining their investment choices. Conversely, 16.67% of the respondents emphasized their commitment to respecting and considering the recommendations of their financial advisor, indicating a desire to align their decisions with the guidance received from their trusted advisor. Investors who rely on their own decision-making typically exhibit a preference for independent analysis and evaluation. They prioritize conducting their own research, analyzing financial information, and assessing market conditions to make investment decisions. For instance: According to investor 12

"While I appreciate their insights, I prioritize conducting my own thorough analysis before making any investment decisions. I do not blindly trust these signals, but rather use them as additional information to validate and confirm my own findings before proceeding with an investment".

On the other hand, the other responses were not going against financial advisor decision, according to investor 11:

" I value the advice of brokers due to their knowledge and experience in the market, particularly when it comes to understanding market fluctuations. However, I also make independent investment decisions based on my own research and analysis."

This result is supported by the previous findings of Zhao (2003) who reported that the clients of advisors are relatively uninformed and purchase the product which is recommended by the advisor.

Sub theme 3: Source of information

Upon analyzing the responses, it becomes evident that investors rely on a variety of sources of information to make informed decisions. The primary sources mentioned include fundamental and technical analysis, news and stock market websites. While some respondents emphasize the importance of company fundamentals as the primary source, others acknowledge that no single information source can be solely relied upon. According to the interview data, it is evident that retail investors place significant reliance on traditional forms of media, including print and electronic sources. These established media channels serve as essential pillars of information for retail investors when making investment decisions. Approximately 41.67% of the respondents believe that reliance on company fundamentals, such as financial statements, financial ratios are their primary source of information. "Factors such as payout ratio, dividend ratio, trading activity, stock liquidity, and overall company fundamentals serve as crucial indicators when evaluating investment opportunities", according to Investor 2. The 25% of the interview respondent relied on the news, financial databases, etc. For instance: According to investor 6, "Past performance, comprehensive websites displaying 10-year data, diligent evaluation of dividend records of the company, and staying abreast of the latest news collectively offer valuable insights into the prevailing circumstances". Another 25% of the respondent relied both on fundamental and technical analysis, this data is consistent with (Taylor & Allen, 1992) finding of the survey involving 353 dealers in the London exchange market which revealed that both fundamental analysis and technical analysis are complementary in nature." Experienced individuals in the investment field tend to employ a balanced approach, relying on both fundamental and technical analysis to inform their investment decisions. In contrast, newcomers to the investment arena often prioritize fundamental analysis as their initial focus before delving into technical analysis." This is parallel to the result of the study of Utami and Nugroho (2017) which revealed that the level of experience of investors positively correlates with a higher inclination towards employing fundamental analysis in their investment approach.

Theme 2: Earning announcement and stock pricing

Sub theme 1: Impact of timely earning disclosures on share's price

In the course of the interviews, investors were specifically queried regarding the influence of timely earnings announcements on the movement of share prices. The 50% of the respondent believe that the impact of timely announcements on share prices depends on the specific news being announced. These investors recognize that the effect on share price can vary depending on the content and implications of the announcement. According to investor 4, "Timely earnings announcements are vital for maintaining stability in share prices. The nature and content of the earnings announcement can significantly influence the market's response and the stability of share prices. However, *delays in earnings announcements create doubts and uncertainties for investors. Such delays can lead to fluctuations in share prices and a sense of unease in the market".* Which is parallel to the studies conducted by Givoly and Palmon (1982) as well as Hart et al. (2013) have established a relationship between the nature of earnings and the timing of their announcements. The 16.67% of my respondent hold the opinion that the timing of earnings announcements is consistent and predetermined, and therefore, the timing itself does not have a direct influence on share prices or market reactions. According to investor 6, "*Earnings announcements are consistently delivered in a timely manner due to the stringent regulations imposed by the Securities and Exchange Commission of Pakistan (SECP).* These regulations ensure that companies adhere to strict guidelines and timelines for disclosing their earnings information." The 33.33% of the respondent believe that timely earnings announcements have a positive or negative impact on share prices. These investors acknowledge that the timing of earnings announcements, when released promptly and in accordance with market expectations, can influence investor sentiment and subsequent share price movements.

Sub theme 2: Delay earning announcement

During the interview analysis, it was found that 66.67% of the respondent have never sold a share due to a delayed earnings announcement. These investors have not taken any action to sell their shares solely based on the delay in the release of earnings information. According to investor 2," I have not sold any stocks solely based on the reason of timely earnings announcements. However, there may be instances where selling stocks could be driven by individual financial needs or other factors unrelated to the timing of earnings announcements." On the other hand, the 41.67% of the respondent have sold shares in response to a delayed earnings announcement. These investors have decided to take action and sell their shares due to the prolonged delay in receiving the earnings information, indicating that they value timely and reliable information to make informed investment decisions.

Sub theme 3: Reaction Time to News and Delayed Response

In one of the pioneering and influential studies on capital markets in accounting, Beaver (1968) highlighted the potential of trading volume as a valuable indicator of the nature and impact of earnings announcements on market participants. Beaver argued that reactions in trading volume reflect the absence of consensus on the appropriate share price of a firm. He further contended that changes in trading volume capture shifts in the expectations of individual investors, while price reactions reflect changes in the expectations of the market as a whole. Consequently, an earnings announcement can be neutral in terms of not altering the expectations of the market as a whole (resulting in no price reaction), yet significantly impact the expectations of individual investors (leading to trading activity). Consistent with these findings, interviews conducted with investors revealed that some preferred to exercise caution by delaying their response to earnings news. Interviewee 4 stated, "The timing of response depends on the level of experience.

Experienced individuals tend to exhibit a delayed response, while others who are more watchful react immediately." This suggests that these investors adopt a prudent approach, taking the time to gather additional information and analyze the situation before making any trading decisions. Their inclination is to await confirmation from supplementary data or market trends to support their assessment. Furthermore, another participant expressed the decision to hold their shares upon receiving positive earnings news. This indicates their confidence in the company's performance and their expectation of an increase in the stock price. They perceive it as an opportune moment to retain their shares, anticipating potential future gains. As articulated in the interview, the interviewee 1 expressed his view that: "If the stock has performed well or worse, my response will be in accordance with that. In the case where the stock has not performed well, I would choose to hold the stock rather than selling it". There were other investors too who react instantly on news. These findings are consistent with the research conducted by Frazzini and Lamont (2006), which highlights that individual investors tend to make impulsive trading decisions based on their attraction towards stocks that capture their attention through news events, such as earnings announcements

The 50% of the respondent indicated an immediate reaction to bad news, choosing to sell their shares immediately upon receiving negative information. These investors tend to prioritize quick actions in response to negative developments, potentially aiming to limit losses or avoid further downside. On the other hand, the 50% of the respondent displayed a more cautious and delayed response to bad news. These investors preferred to analyze the market situation carefully before making any decisions. They considered various factors beyond just the immediate news, taking into account the broader market context and the long-term prospects of the company. For instance: According to investor 9, "As a long-term investor, I follow a prudent approach of delaying my reaction to stock earnings. It is essential to recognize that by the time earnings news reaches individual investors, the broader market has already absorbed and responded to the information. Therefore, instead of making instant reactions, investor should analyze the situation carefully." The responses reflect a diversity of investment approaches and decision-making processes when it comes to reacting to news, particularly in response to negative developments. While some investors react swiftly to bad news, others adopt a more patient and analytical approach, considering multiple factors before deciding on their investment actions.

Sub theme 4: Information leakage

This theme "Information leakage" is based on the opinions of the participants which were split when it came to determining whether the cause behind the notable returns prior to an announcement could be attributed to the disclosure of sensitive information. An overwhelming majority, comprising 67% of the respondents, hold the view that information leakage is not the primary factor contributing to the significant returns observed before public announcements. Instead, they attribute these returns to other factors at play in the market. Approximately 33.33%, of the respondents, believe that the pre-announcement significant returns are a result of information leakage. As mentioned by interviewee 12,

"The stock market in Pakistan is not considered highly efficient, which increases the likelihood of insider trading. However, it is important to note that insider trading may not be the sole reason behind the significant returns observed. While insider trading is a possibility in the Pakistani stock market, it is essential to recognize that other factors may also contribute to this asymmetrical information."

The interviewee also added that stock market in Pakistan is under strict control and regulation by SECP. These strict rules act as a deterrent to prevent insider trading and reduce the chances of information leakage. According to investor 9,

"Companies are bound by restrictions imposed by the SECP, preventing them from

disclosing certain information. Additionally, employees of these companies are often prohibited from directly trading on the stock market. However, in some instances, employees may find ways to circumvent these restrictions by involving their relatives or close associates to trade on their behalf. This practice can potentially lead to information leakage. The involvement of employees' relatives or close associates in trading activities creates a possibility for confidential information to be shared or utilized for personal gain". Despite the strict regulations in place, these indirect trading channels may provide a means for information to leak out, compromising the fairness and integrity of the market.

According to investor 11, "Undoubtedly, there is an acknowledged issue of insider information leakage in Pakistan, and it can indeed be one of the contributing factors behind the significant returns observed in the market. Investors often heavily rely on such privileged information, leading to stocks being overbought based on these insights. However, it is important to note that these stocks tend to undergo a subsequent correction as the market adjusts itself". For those investors who capitalize on the leaked insider information at a later stage, this correction may appear as a downfall. Their delayed utilization of the information may result in a mismatched timing, causing them to experience the market correction as a negative impact on their investments.

During the interviews conducted, differing perspectives emerged regarding the role of information leakage in driving significant returns in the Pakistani stock market. While some interviewees believed that information leakage could be a contributing factor which is consistent with the literature such as such as (Sehgal & Bijoy, 2015) in India; (Khan, 2011) and (Qureshi et al., 2012) in Pakistan; (Su, 2003) in China. Others expressed a contrasting view. Those who held the belief that information leakage plays a significant role firmly believe that it is the reason behind the observed significant returns. Conversely, interviewees who did not attribute the significant returns to information leakage pointed out that the stock market in Pakistan is not considered highly efficient, indicating the existence of additional reasons for the asymmetrical information and subsequent returns which is consistent with the claim of Savor and Wilson (2013) which highlights the positive significant return due to the macroeconomic announcements including CPI report, FOMC decision. It is evident that the interviews reflect a range of opinions on the influence of information leakage, with some interviewees highlighting it as a possible factor while others underscore the presence of alternative explanations for the significant returns observed.

Theme 3: Investor sentiments

This theme "Investor sentiments" explores the role of the emotions in investment decisions, which is perceived by the interviewed investors. It focuses into the impact of prior experiences and the relevance of an emotions in guiding an investment behavior. The responses reflect varying perspectives on the influence of an emotions which range from fear-based decision-making to a preference for the rational analysis. Investor 5's assets that the prior negative experiences can instill fear in investors which impact their investment decisions and highlights the significant role of emotions playing in shaping the sentiment of an investor. This suggests that the emotional responses, such as fear, can influence risk perception and investment behavior of an investor. About 80% of an Investors were reported to become hesitant to invest due to past losses or any unfavorable outcomes which leads to a cautious approach in decision-making. As reported by investor 5,

"Yes, it does have the effect. If the investor has prior worst experience related to his investment, he will have fear in investing (investor 5)".

Sub theme 1: Analytical consideration

On the contrary, about 20% of the investor expresses a contrasting viewpoint by emphasizing the importance of rational decision-making on the basis of analysis rather than the emotions. This perspective highlights the belief that investors should rely on an objective assessment and data-driven analysis to make informed investment decisions rather than subjective assessment. According to this viewpoint, emotions are considered irrelevant or even detrimental to the investment process, as they may cloud their judgment and leads to suboptimal outcomes. Investor 7 emphasized in the following words:

"No, emotions cannot affect an investor's decision. He should take decision on the basis of his analysis (investor 7)".

Overall, these contrasting viewpoints highlights the relation of investor sentiments and the extent to which an emotion influences the investment decisions. While some investors acknowledge the impact of emotions, others prioritize rationality and analytical reasoning during investment.

Theme 4: Market anomalies and exploitation

Sub theme 1: Anomaly prediction

According to Fama's proposition in 1970, no investment can consistently outperform the market. In light of this, interviewees were asked about their views on this proposition. The market does exhibit anomalies, but only a subset of individuals can effectively capitalize on these opportunities, as mentioned by Interviewee 12: "Anomalies like the Monday effect and earnings announcements impact investors, but their effects can be predicted. Unforeseen news events pose greater risks. Investors rely on news for capitalizing on anomalies, but even news doesn't guarantee success. Experience helps in making judgment calls, but accurately predicting the future is challenging." During the interviews, investors expressed various opinions on this matter. Some believed in luck or chance, while others believed that taking advantage of anomalies is possible through speculative news. The responses from the interviewees regarding the exploitation of market anomalies reveal diverse perspectives. While some attribute anomaly exploitation to chance or luck, others emphasize the role of purchasing power and access to capital. Recognizing the difficulty in predicting market movements, interviewees acknowledge the challenges in taking advantage of anomalies. However, they also recognize the potential benefits of staying updated with the latest news, analyzing speculative information, and utilizing technical analysis to identify market inefficiencies. Additionally, interviewees highlight the advantage that individuals with financial resources possess in exploiting anomalies

5.0 Conclusion

The findings from the interviews offers the valuable insights into various aspects of an investor behavior, decision-making strategies, and the market dynamics within the context of the Pakistan stock market. These insights shed light on the complexities and the nuances inherent in an investment decision-making and provide a deeper understanding of the determinants affecting investor sentiments, reactions to the earnings announcements, and a perceptions of market anomalies. Firstly, the significance of fundamental analysis in an investment decision-making emerged as a prominent theme among the interviewees. While some investors favored the fundamental analysis which emphasize the importance of evaluating the financial statements and economic indicators while others leaned towards the technical analysis or adopted a hybrid approach. This diversity in an investment strategy underscores the multifaceted nature of market analysis and highlights the need for an investor to tailor their approaches on the basis of individual preferences and the market conditions. Secondly, the interviews revealed the importance of an investor sentiments in shaping investment decisions of an investor. While some investors acknowledged the influence of the emotions, particularly fear which stems from prior negative experiences while others emphasized the importance of rational decision-making on the basis of objective analysis. This highlights the role of emotions in an investment behavior and emphasized the need for investors to strike a balance between an emotional responses and analytical reasoning.

Thirdly, the reactions to an earnings announcements provided insights into the responses of an investor to corporate disclosures and their implications for the stock pricing. The findings suggest that timely earnings announcements play an important role in maintaining the market stability, with investors reacting differently on the basis of the nature and timing of the news. Furthermore, the interviews revealed varying perspectives on the impact of an information leakage on market returns, with some attributing the significant returns to insider trading while others highlighting the alternative explanations for market anomalies. Lastly, the discussions on market anomalies and exploitation emphasized the challenges and opportunities which is associated with capitalizing on inefficiencies in the market. While some investors acknowledged the difficulty in predicting the market movements and the limitations of anomaly exploitation whereas, others highlighted the potential benefits of staying informed and utilizing the technical analysis to identify opportunities for profit while investing.

5.1 Limitations and Future Direction:

The results of this study provide the understanding of market participants as well as of market mechanisms in the context of the Pakistan stock market but this research study have several limitations which needs to be acknowledged. Firstly, in terms of methodology, the variability of the study due to its qualitative nature poses the risk of inability to generalize the findings to a broader community. Secondly, the sample size despite being adequate for the qualitative analysis may not quite comprehensively represent the varying standpoints within the investor community. Additionally, the fact that self-reported data from interviews is used lends credibility to response bias and uncertainty in the process of interpretation. Finally, the study's focus on Pakistan stock market can find the application limited to some other markets having different regulatory framework and an economical condition.

The present research can be utilized for many other researches that are meant to build deeper insights into the investor behavior and the market dynamics. Firstly, researchers may utilize mixed method techniques that combine the quantitative with qualitative data to reduce biases and strengthen the integrity of a research findings. Moreover, performing a bibliometrics analysis would add to the valuable insights into the already existing work on investor sentiment, post-reporting quarterly drift, and the trading by investors by highlighting the key directions and gaps. Moreover, future researches must consider whether the observed relationships between investor sentiment, post-earning announcement drift, and investor trading persist in other emerging or developing countries, which will provide comparative information regarding the market dynamics in different settings. In the end, longitudinal studies can record the changes in the behavior of an investor and market response trends. These trends can give important insights on the evolution of market sentiment and its implications for the investor trading strategies.

Shaheen Tariq: Problem Identification and Theoretical Framework
Asma Rehman Ullah: Data Analysis, Supervision and Drafting
Muhammad Raza: Literature Search,Methodology, and Drafting

Conflict of Interests/Disclosures

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