



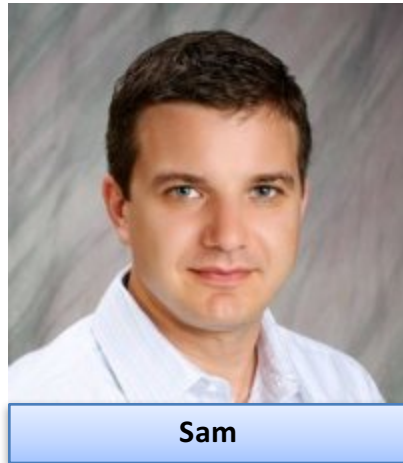
**JACOBS LEVY EQUITY
MANAGEMENT CENTER**
FOR QUANTITATIVE FINANCIAL RESEARCH

Discussion:
**A Tough Act to Follow: Contrast Effects in
Financial Markets**

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A Tough Act to Follow...indeed...

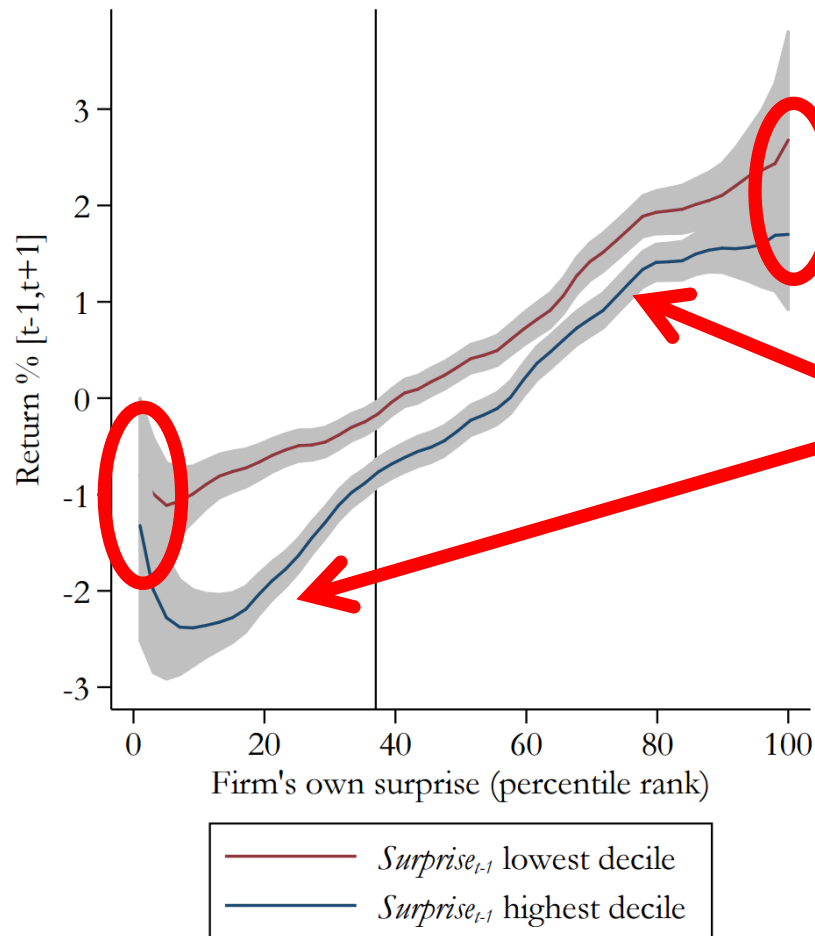


Bottomline: This is a great paper

Key Takeaways #1

1

Contrast Effects Distort Market Reactions



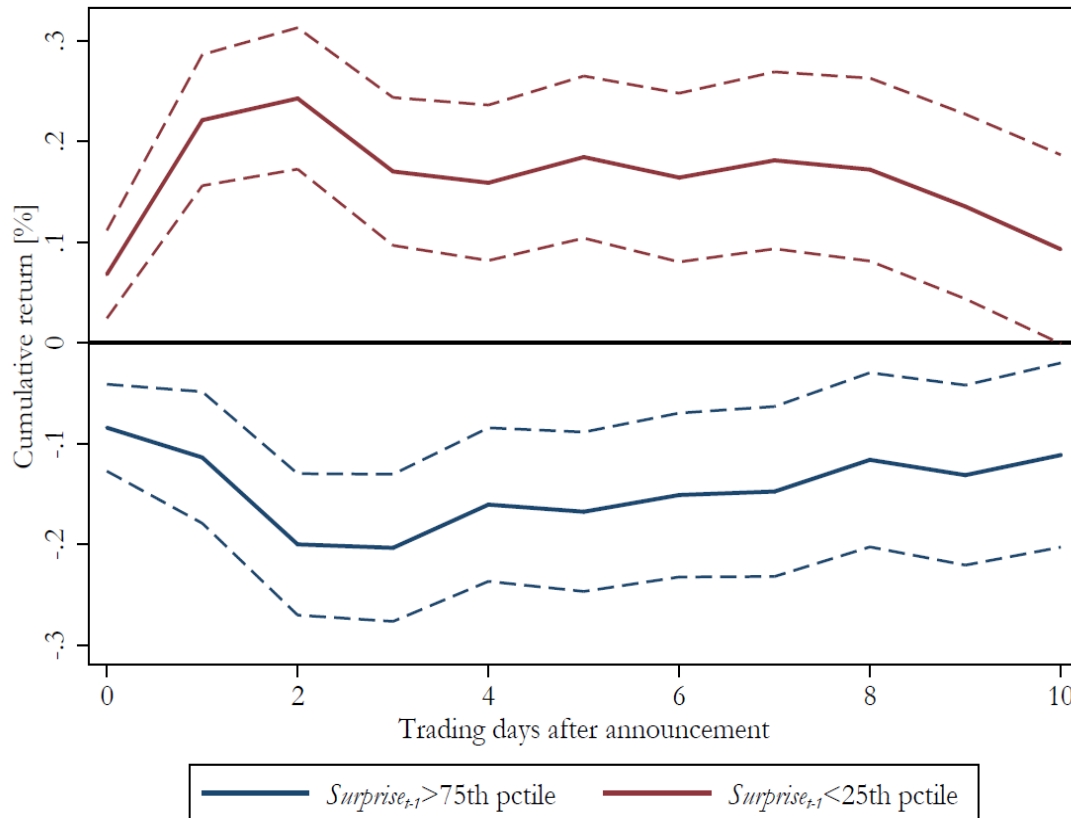
Extreme cases
→ Unclear effect

“Normal” cases
→ Contrast effect matters

Key Takeaways #2

2

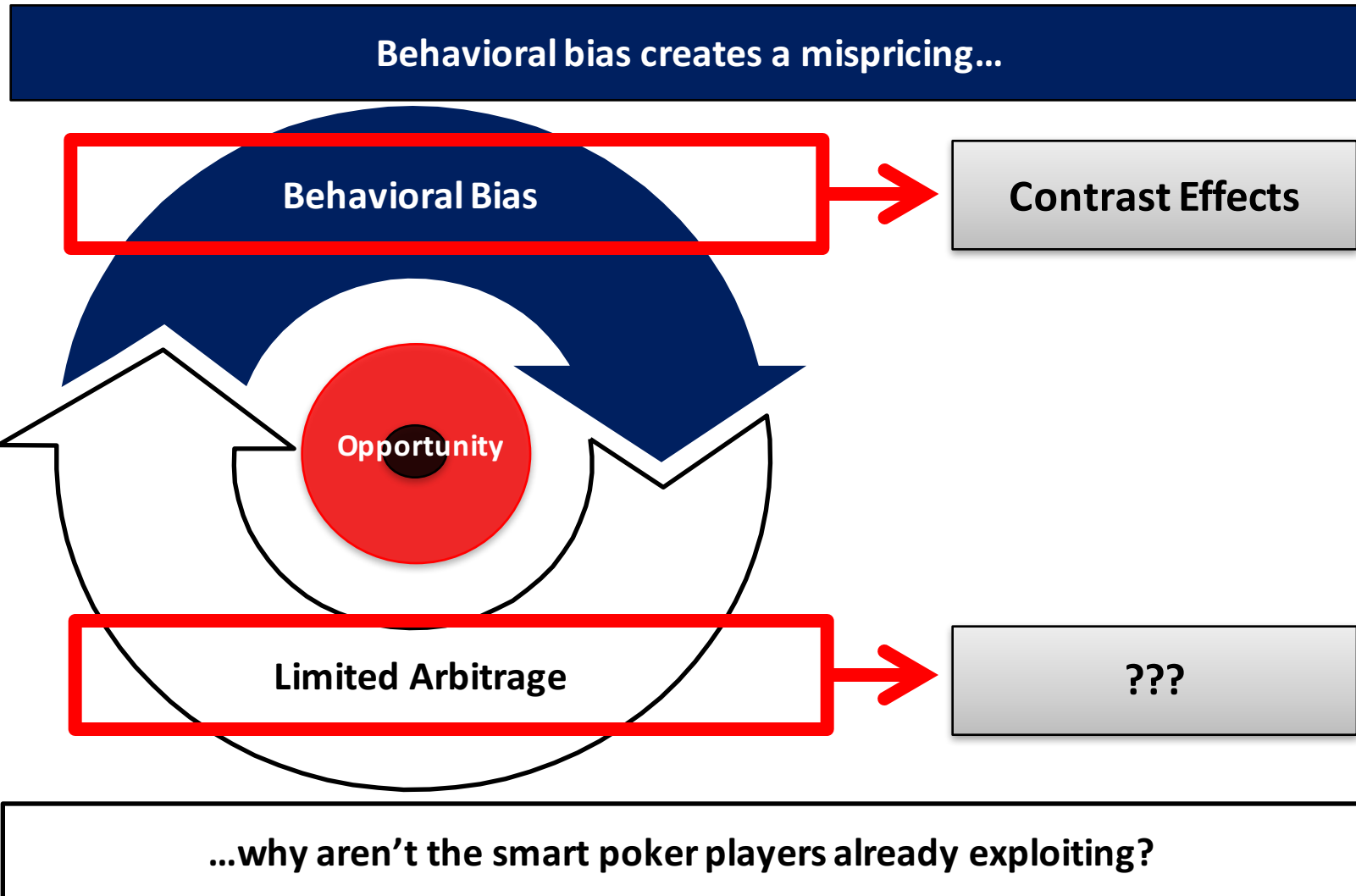
A naïve strategy can earn excess profits



If t-1 surprise high
→ Short t names; long market

If t-1 surprise low
→ Long t names; short market

Is this strategy sustainable out of sample?



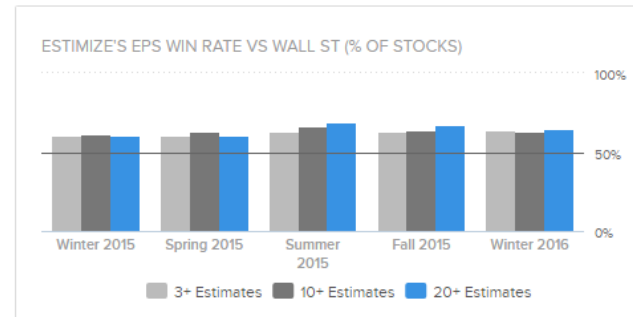
Is this strategy sustainable out of sample?

- No obvious arbitrage constraints
- No obvious correlation with other strategies
- Earnings forecast technology is improving

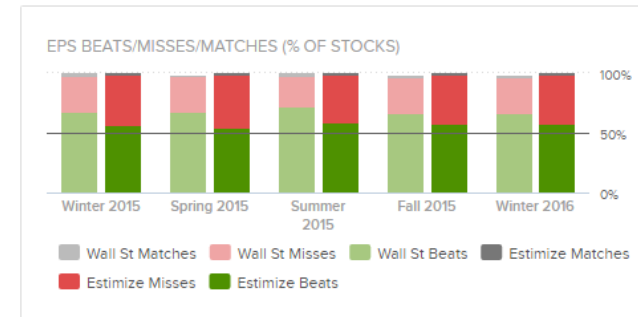
The Most Accurate And Most Representative Earnings Forecasts



Estimize is more accurate than Wall St nearly 70% of the time



3 out of 4 companies beat Wall St, while only half beat Estimize



➔ Unlikely to see out of sample