Price Response Indicator

Background

The Price Response Indicator (PRI) is a model that takes into account a stock's price behavior just before an earnings announcement as well as the extent of the earnings surprise, if there is one. Essentially, if a stock declines in price ahead of an announcement and the company reports a strong, positive earnings surprise, then the stock receives a high PRI score. If the reverse is the case, then the stock gets a low score.

The PRI assigns scores, A through E, with A being the best.

Methodology

- Quantifies historical relationship patterns between price movement and the EPS/Sales Surprises
- Takes into account the price behavior of a stock just before an earnings announcement as well as the magnitude of the earnings surprise
- Assigns a score, A through E, with A being the best
  - 'A' represents a stock that has declined in price ahead of earnings announcement and reports a strong, positive earnings surprise
  - 'E' represents a stock that has increased in price ahead of earnings announcement and reports a strong, negative earnings surprise

How the PRI is used

The PRI model's optimal time horizon is 3 to 10 days. Consequently, many institutional investors use the model as more of a timing tool rather than a guide for picking long term outperformers. Common uses of the PRI model include:

- Decision tool to buy a stock immediately following positive earnings news or waiting to buy after some profit taking.
- Decision tool to sell a stock immediately following bad earnings news or waiting to sell after a bottom-fishing related lift
- Tie-breaker for buy / sell candidates
- Factor in a Multi Factor Model

Performance

06/30/2010 to 03/31/2017

	PRI Score				
Holding Periods	**A**	**B**	**C**	**D**	**E**
Average 2 Day Return	0.5%	0.4%	0.0%	-0.9%	-1.0%
Average 5 Day Return	0.5%	0.5%	0.0%	-1.1%	-1.3%
Average 40 Day Return	1.8%	2.4%	1.5%	-0.1%	0.1%
Average Quarterly Observations	325	700	1506	504	87