Date:
2008-08-01

Summary:

Two Duke University accounting professors contend that nonverbal vocal cues (voice pitch, tone, intensity, speed, volume, inflection, pauses, etc.) communicate important information during earnings calls. They found that negative emotions predict whether companies are more likely to miss analysts' consensus earnings forecasts during the next three quarters.

Negative affective states also predict downward moves in stock returns. An investor who purchased stock in companies whose executives spoke with low negative emotion, and sold stock in companies whose executives spoke with high negative emotion, would earn a risk-adjusted return of about 9% over 180 days, whereas the opposite approach results in a 9% loss.

The professors, William Mayew and Mohan Venkatachalam, employed layered voice analysis (LVA) technology to interpret the vocal cues of CFOs and CEOs during 615 calls in the first quarter of 2007. Originally developed for lie detection, LVA has been used for insurance-fraud detection, by telephone call centers to detect the emotional states of callers, and by health-care facilities to detect emotional stress in patients. The software the professors used analyzed 129 vocal parameters to determine positive or negative emotions.

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Entitled "The Power of Voice: Managerial Affective States and Future Firm Performance," the paper is currently under consideration for publication in a finance journal.

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Original Title:

What a CFO Doesn't Say Can Hurt