

THE EARNINGS REACTION CASE



2 MARKETS

LEARNING OBJECTIVES

For the selected stock, analyze adjusted EPS and revenue relative to consensus expectations; translate forecasts into probabilities and trading decisions in the prediction market; and explain why an earnings beat may not produce a positive stock-price reaction.

MARKET 1 | EARNINGS OUTCOMES

Outcome	Adjusted EPS	Revenue
Beats both	Beats	Beats
EPS only	Beats	Does not beat
Revenue only	Does not beat	Beats
Beats neither	Does not beat	Does not beat

Beat: actual > the corresponding consensus estimate cited in Yahoo Finance's earnings summary. A match or a miss is **not a beat**. Compare adjusted EPS on the same basis as its estimate.

MARKET 2 | PRICE RESPONSE

Outcome	Settlement condition
Positive reaction	$R > r\%$
Within the band	$-r\% \leq R \leq +r\%$
Negative reaction	$R < -r\%$

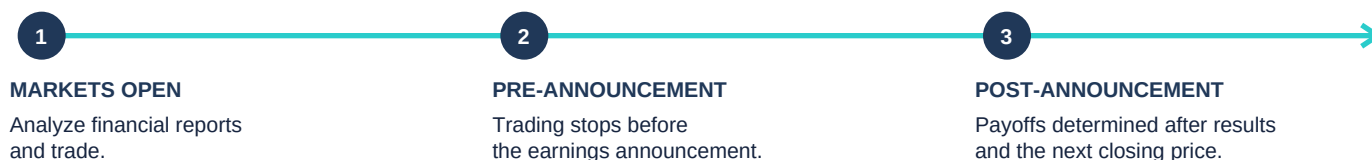
Let $R = 100 \times (P_{\text{after}} / P_{\text{before}} - 1)$, expressed as a percentage. Set $r > 0$ before trading opens.

P_{before}: last regular-session closing price strictly before the announcement.

P_{after}: first regular-session closing price strictly after the announcement.

Use Yahoo Finance **Close**, not Adj Close or an after-hours quote.

CASE TIMELINE



SETTLEMENT | YAHOO FINANCE

Market 1 settles using **Yahoo Finance's** summary of the quarterly earnings announcement: announced adjusted EPS and revenue compared with the consensus estimates cited in that report. Use the report's stated consensus source. Market 2 settles using Yahoo Finance closing prices as defined above.

EXAMPLE | NVIDIA

Quarter ended July 26, 2026; released Aug. 26.
Actual / consensus: adjusted EPS \$2.22 / \$2.09; revenue \$96.22bn / \$92.27bn. Both beat.
Close: Aug. 26 \$209.66; Aug. 27 \$227.98.
R = +8.74%; illustrative r = 5%.
Settlement per security (market-cash units):
 M1: Beats both **100**; EPS only **0**;
 Revenue only **0**; Beats neither **0**.
 M2: Positive **100**; Within band **0**; Negative **0**.

YOUR TASK

Connect your analysis of the financial reports with your trading strategy in the prediction markets. The overriding question is: How strongly do capital markets react to information in reported earnings and sales revenue?

BEFORE TRADING: The instructor publishes r , the announcement time and time zone, the trading cutoff, and the contract payout. Trading closes before the announcement.

PROPOSED PAYOUT: Each winning contract pays 100 market-cash units; all other contracts pay 0. Under this convention, price / 100 is an indicative probability. Confirm this convention in the FTS setup.

Example sources: [Yahoo Finance / MT Newswires, Aug. 26, 2026 \(FactSet consensus\)](#); [Yahoo Finance historical closes](#).

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1. RESEARCH | WHAT IS ALREADY EXPECTED?

For your selected stock and quarter, record in **Notes** the ticker, announcement date, threshold r , and dated sources. What are the current adjusted EPS and revenue consensus estimates? What are your point estimates, and what evidence supports any difference? Pre-event estimates inform your forecast; settlement follows the earnings summary specified on page 1.

2. ACCOUNTING | WHAT DRIVES YOUR FORECAST?

Which two or three items in the financial reports matter most: sales volume, pricing, margins, expenses, or share count? How could EPS beat while revenue does not? What adjustments reconcile GAAP and adjusted EPS, and are you comparing the same basis? Do cash flow, receivables, or inventory support the reported performance? Identify one finding that would change your forecast.

3. SCENARIOS | CONNECT THE TWO MARKETS

Complete this table in Notes **before trading**. For each earnings outcome, estimate the chance of each price-response range **if that earnings outcome occurs**. Use the instructor's threshold r .

Earnings outcome	Probability of outcome	Negative $R < -r\%$	Within band $-r\%$ to $+r\%$	Positive $R > +r\%$
Beats both				
EPS only				
Revenue only				
Beats neither				

Check: Earnings-outcome probabilities sum to 100%. The three price-response probabilities in **each row** also sum to 100%; the within-band range includes both boundaries. Explain why a beat on both measures could still be followed by a negative return. Consider guidance, the size of the surprise, valuation, and broader market news.

Link the forecasts: Overall probability of a positive return = sum across the four rows of [probability of the earnings outcome x probability of a positive return given that outcome]. Repeat for the other price ranges. The three overall probabilities must sum to 100%.

4. TRADING | WHAT JUSTIFIES YOUR POSITION?

Under the proposed 100/0 final payout, and at the time of your trading, compare each security's price / 100 with your probability. Which appears over- or underpriced? Record your intended trade, available bid or ask, and reasoning in Notes. What evidence would make you reduce or reverse the position? How do your positions across both markets reflect the same analysis?

5. DEBRIEF | WHAT DID THE ANNOUNCEMENT TEACH YOU?

Record actual adjusted EPS and revenue, the settlement consensus figures, both closing prices, the return, and every security's payoff. Which forecast was closest, and why? Did guidance or other news help explain the reaction? What alternative explanation fits the evidence? Distinguish a sound analysis from a profitable trade; one outcome does not establish forecasting skill.

DISCUSS: How strongly did prices react to the reported earnings and revenue information? Use evidence, acknowledge other news in the close-to-close window, and identify one improvement to your next forecast.