Disagreement, Non-GAAP over GAAP Earnings, and Stock Returns *

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Abstract

Earnings differences between non-GAAP and GAAP standards are negatively associated with future stock returns. While this association may weaken in the long run after Regulation G, it still holds for low-disagreement stocks. The return of the high-minus-low earnings differences portfolio across low-disagreement stocks is still profitable, even adjusted by common risk factor models, which is more pronounced across low-sentiment periods. Further, firms with greater earnings differences have greater earnings surprises, intangible capital investments, and stock issuances but lower cash flows, indicating that some managers' opportunistic behaviors escape regulation and run out of cash flows, leading to lower future returns.

JEL Classification: G12; G14.
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