David jones annual profit report 2011

After a profit announcement was made by David Jones Ltd, it is the objective of this report to note whether there was an impact of such information on investor behaviour via the share prices of this company. To ensure that the information found was accurate, the effect of the All Ordinaries was taken into consideration and comparisons were made between David Jones and its two main competitors. After analysing the closing share prices before and after the date of the announcement, it was found that share prices reduced more than that of the general stock market and also more than that of its main competitors.

This report concludes that the announcement of accounting information by David Jones had a significant effect on investor behaviour and can either increase or decrease confidence in the company. Report: The key objectives of this report is to discover if announcements made by David Jones (David Jones Annual Report, 2011) had a positive, negative or no impact on share prices depending on the nature of the announcement. Through observations on the closing share prices 3 weeks before and 3 weeks after the announcement was made by David Jones, the information was compared to its two main competitors in the retail industry, Myer and Harvey Norman.

Removing the effects of the All Ordinaries further added to the accuracy of the report to ensure that the overall prices in the stock market were not having an effect on the outcome. This was done by calculating the cumulative residual of the shares for each company and comparing them in the graph provided (Figure 1). On the 28th of October 2011, David Jones, one of Australia's retail giants, released their annual profit report on the ASX website, in which it showed that sales in 2011 were lower than those of 2010(David Jones Annual Report 2011, p03).

Adding to this decline it was also added that the -10. 3% growth rate in the 4th Quarter of 2011 was considerably less than the +1. 2% growth rate of the 1st Quarter of 2011 (David Jones Annual Report 2011, p05). Although the report went on to praise the performance of the company in relation to the economic down turn, this information could not hide the impact that the lower profit margin has had on share prices. Included in the report was the Net Profit After Tax (NPAT). The 2011 NPAT ($168. million) was $2. 7million less then the 2010 NPAT ($170. 8million) (David Jones Annual Report 2011, p60).

With this information in mind, it was predicted that the downturn in profit would have negative consequences in share prices. This prediction may have been worse if David Jones had not previously released an announcement indicating that the Annual Profit Report will be soon released. This anticipation pre warned the share holders and may have dulled the impact of the Annual report.

On the day of the announcement made by David Jones, the closing price of the shares on the 28th of October was 3. 52, compared to 3. 53 on the previous day. Although this is a small difference, the All ordinaries did the opposite on that day and went up by almost 8cents, bringing the cumulative residual of the David Jones share to -5. 399%. On the next business day, the DJS shares continued the downward trend and dropped from 3. 52 to 3. 39. Although the All Ordinaries also went down, the cumulative residual was still considerably lower at -4. 45%.

Over the course of the next three weeks up until the 21st of November, the DJ shares continue to decrease apart from 3 business days from the 3rd to the 7th of November. The shares ended on 3. 06 at the end of the 3 week period recorded (Trading room, 2011). In the 3 weeks before the announcement, David Jones shares were continually rising. They went from 2. 94 on the 6th of October and peaked on the 27th of October to 3. 53 (Trading room, 2011). The cumulative residual went as high as +10. 59% on the 18th of October.

This information indicates that the accounting information announced by David Jones had a significant effect on investor behaviour and acted negatively on the price of its shares. This information was then compared to its two main competitors, Myer and Harvey Norman, to further understand the pattern shares may have had in the retail industry. As shown in the Cumulative Residual Graph below, once the announcement was made, share prices were considerably lower than the All Ordinaries. Figure [1] Cumulative Residual Graph

Competitors: When looking at the Myer closing share prices for the same period, it seems that a similar pattern has occurred. The share price on the 6th of October was 2. 11 and continued to rise in the 3 week period before the announcement was made by David Jones, to 2. 63 on the 28th of October (DatAnalysis). In the 3 week period after the announcement the share prices steadily went down to 2. 54 on the 21st of November. This drop in price was not to the same extent as of the David Jones shares (See Figure 1).

When looking at the Harvey Norman share prices, in the 3 week period before the announcement the closing price went from 2. 22 on the 6th of

October to 2. 16 on the 28th of October (Trading Room). This is a different pattern to that of Myer and David Jones, which increased in value over the same period. Harvey Norman Prices then continued the decline in the 3 weeks after the announcement and ended on 2. 06 on the 21st of November, when looking at the cumulative residual of Harvey Norman, it is considerably lower than the general stock market and also than Myer and David Jones.

This result indicates that Harvey Norman may have been having a tough period in sales and due to the time of year, most companies had also released their annual profit report. The economic downturn, particularly in this time of the year, had a large impact in the retail industry and forced shares below the All Ords on the lead up to Christmas. Conclusion: With all of this information in mind, it is clear to see that the accounting information is an integral part of investor behaviour and can influence share prices to either increase or decrease in value depending on the nature of the information.

The David Jones profit report (2011) stated that profit had decreased in that financial year and also in the last quarter. This negative information reflected on the closing share price of that day and when compared to its main competitor, Myer, the share value decreased further. Although Harvey Norman was having a tough period of its own, David Jones shares continued to have lower cumulative residuals. Therefore, the prediction made earlier was echoed in the report, and the consequence of the David Jones announcement had a negative effect on investor behaviour.