Does Stock Price Crash End Bad-News Hoarding? Evidence from Post-Crash Management Guidance

Firm-specific stock price crashes are attributed to the sudden release of hidden bad news accumulated over time once it surpasses a critical threshold. We examine whether the crashed firm attempts to offset the crash event by selectively releasing good news while continuing to withhold bad news, or instead it considers the event as an opportunity to reset its disclosure strategies. Using a sample of 769 realized firm-specific crashes matched with non-crashed firms with comparable crash-risk profiles, we find that crashed firms foster the disclosure of remaining bad news and curtail the issuance of good news through management guidance. Investors perceive post-crash bad-news (good-news) disclosures as credible (opportunistic). Overall, our findings indicate that a stock price crash diminishes the marginal benefits of concealing bad news, prompting managers to adopt a more transparent disclosure environment.

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