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Quadrophobia, analyst recommendations, and financial reporting system

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Abstract

“Quadrophobia” is a relatively novel term that corresponds to a type of ‘fear’ or ‘misrepresentation’ that can manifest itself during the process by which companies report their earnings per share (EPS) values to the public. This study sought to conduct an in-depth examination into the process by which company's reported their respective EPS amounts, in order to determine the degree to which they manipulate the fourth number after the decimal place to bolster their perceived value. Our research focused on analyzing the actual v. reported EPS data (via Worldscope) of various companies being trading on different exchanges throughout the world, and from these sets of data, ascertaining the fundamental causes for quadrophobia and possible solutions to this pervasive problem. Our analysis concludes that a higher degree of quadrophobia was prevalent in developed countries, than in emerging markets.