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By

S. L. Mintz /

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## 7 Verbal Clues That an Earnings Call Is BS

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When quarterly earnings conference calls come around, I yearn for insight beyond the heaps of financial data. Thanks to elaborate accounting techniques, even shaky public companies can dress up numbers as walls crumble. So consider fresh evidence from two researchers at Stanford University's [Arthur and Toni Rembe Rock Center for Corporate Governance](#). Before you see cracks, you might hear them.

[David Larcker](#), the James Irvin Miller Professor of Accounting at Stanford, and Ph.D. candidate [Anastasia Zakolyukina](#) combed through off-the-cuff remarks from hundreds of question and answer sessions. They were looking for language that exposed deceptions by senior executives.

"Our primary assumption is that CEOs and CFOs know whether financial statements have been manipulated," wrote the authors, "and their spontaneous and (hopefully) unrehearsed narratives provide cues that can be used to identify lying or deceitful behavior."

A single deception often suggests a pattern, according to the study "[Detecting Deceptive Discussions in Conference Calls](#)." Approximately seven firms in 10 that conduct one deceptive call will conduct others. Early warning can make a difference with an investment at stake, and a language-based lie detector was 4 to 6 percent more likely than a random guess to catch executives straying from the truth. That slim margin just might get you out the door before everyone else heads for it.

### Lend an Ear

Larcker and Zakolyukina identified verbal tip-offs to errant behavior. Their empirical evidence and related theory yield seven clues that executives are painting a false picture:

- 1) Guilt-ridden deceivers fear being caught in a deception. They use fewer extreme negative emotion words - from abominable, absurd or atrocious to washed-up, withering or worthless- in commenting on financial results.
- 2) Fabricating lies is difficult. Unrehearsed answers tend to lack specific detail. They sound implausible and lack urgency.
- 3) To distance themselves from false assertions, executives avoid first person singular references. Lacking actual personal experience to give answers substance, untrue statements are often short and indirect.
- 4) For obvious reasons, liars skirt self-incrimination. Efforts to bury a lie feature non-specific language, scant detail and irrelevant information in lieu of information that executives conceal. False answers may be peppered with words that convey extreme positive emotion, from 'A-one,' 'awesome' or 'brilliant' to 'topnotch,' 'unassailable' or 'wowing.'
- 5) Liars lard evasive answers with many different words where truthful executives tend to repeat sound information using similar words.

6) Smooth answers should not fool you. Absence of verbal hesitation - er, eh, um, etc. - might mean that deceptive answers have been prepared and rehearsed in advance.

7) Look out for answers couched as general knowledge. Expressions like "you guys know," "everyone would agree" or "shareholders long know" are cautionary flags for discerning investors. Read between the lines: what sounds true generally is not true here.

As a financial journalist with an abiding interest in CFOs, one more finding grabbed my attention. CEOs and CFOs use different speech patterns when they concoct deceptions. Compared to straight-shooting counterparts, untruthful CEOs refer to themselves less often. They prefer third person impersonal pronouns, fewer words that express certainty and they tend more to tout good news.

For their part, CFOs did not betray deceptions with extreme positive or negative emotions and avoiding the first person. They were more apt though than CEOs to overstate certainty.

Nuance matters, of course. Indictments should not hinge on verbal clues alone. But in the high-stakes scramble to discern fragile truth during conference call Q&A sessions, unwitting word choices by executives might tell you something ominous that that numbers conceal.

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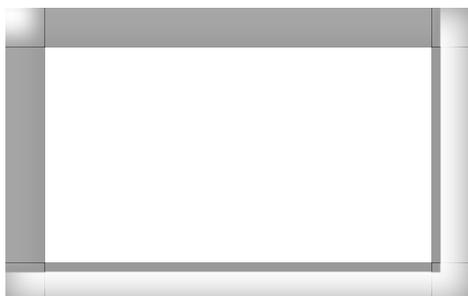


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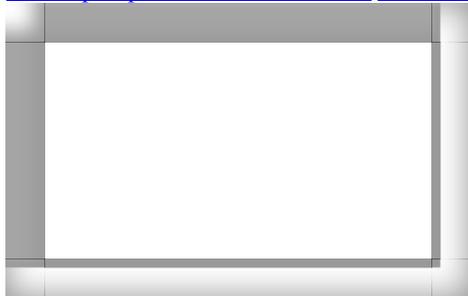


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