



Why Scandals Don't Always Have a Big Impact on Share Prices

Description

While it may seem like bad press means bad news for a company's stock price, that isn't always the case. A good example of that is **Loblaw Companies** ([TSX:L](#)) and the [price-fixing scandal](#) it was involved in and admitted to back in late 2017. And although it came forward on its own accord, which certainly helped the situation, the \$25 gift card it offered customers wasn't received with praise by everyone and had its own share of negative press.

In the six months that followed the news, the stock would see a bit of volatility but would ultimately be down just 1%. Over 12 months, the stock would actually end up rising more than 9%, and today it is up around 18% since the scandal initially broke. It reinforces the fact that while bad press might seem concerning at the time, it's really just temporary, so long as it doesn't involve misleading investors or something [major](#) that fundamentally impacts its results.

After all, results are what it all comes down to. While there are investors out there that care about ethical issues and made purchase decisions based on that, it's clearly not the norm.

Starbucks ([NASDAQ:SBUX](#)) is another great example of a company that was under fire in April of last year when two black men were arrested in one of its coffee shops for no apparent reason. It was big news and bad enough that Starbucks thought sensitivity training would be appropriate. There were calls for a boycott and visible concerns that the brand was damaged.

However, you wouldn't know it by how the stock has performed since then. Initially, in the month following the incident, the stock declined just 3%, and it wouldn't be until June that it would go over a cliff on news of a weak sales forecast and that the company was closing stores.

The stock has recovered since then and, in total, is up 20% from when the scandal initially broke. The brand seems to be as strong as ever and the incident not much more than just a distant memory.

A year earlier, in a much more graphic scandal, there was the video of the United Airlines passenger being forcibly dragged from a plane that outraged travellers. **United Continental Holdings**, the parent company of United, actually saw its stock rise more than 10% in the month following the incident. As viral as the video was, its impact on the company's share price was absent.

While the stock would go on to decline afterward, it too is up since the scandal broke, rising to over 14%.

Bottom line

In all of the above three cases, the stocks have all risen and actually provided investors with good returns since the negative press came out about their respective companies. While it might be tempting to assume that buying stocks after a scandal is a good idea, that's not necessarily what the data here suggests.

It's more than likely that the stocks simply weren't materially impacted by the scandals, and other factors, including earnings results, played much larger roles. And with the recent positivity we've seen in the markets since the start of the year, it's also no surprise that they are all up today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:SBUX (Starbucks Corporation)
2. TSX:L (Loblaw Companies Limited)

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