

Who do you trust while shares are on a roller-coaster ride?

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For the first time, we use primary data of German firms to investigate the usefulness of patent data as a source of information on the value of a company's intangibles depending on the market cycle (bull/bear market). Our results confirm those of earlier US studies in that European patent data make a significant contribution to explaining the market values of companies listed on German stock market between 1997 and 2002 that exceeds the explanatory power of financial statements prepared according to various types of accounting standards (German GAAP, IAS and US-GAAP). In addition, we present, for the first time, evidence that only patents are able to provide plausible investor information in both bull-market and bear-market periods, whereas accounting information, depending on the standard used, overvalues information in bull markets and undervalues it in bears. For the given sample of manufacturing enterprises, the explanatory power of the patent variables, however, is not increased by weighting using backward citations or the family size.

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