

Headlines relaying hot new information about lawsuits and court decisions affecting publicly traded companies are commonly found on the front pages of financial newspapers. However, the effect of these lawsuit events on the stock returns of affected firms is not well understood, as published studies present contradictory findings. Consequently, managers and investors have to often rely on conventional wisdom. To introduce clarity into this complexity, I have collected 882 estimates from 64 primary studies on price responses to announcements of major lawsuit events, constituting a unique dataset comprising over half a million lawsuits. By applying nine methods for detecting publication bias, I find little empirical evidence for its presence. Additionally, I control for more than 50 research design characteristics to capture some of the inherent heterogeneity in the characteristics of lawsuits and underlying modeling choices. Using the modern method of Bayesian model averaging, I find that the effects of class-action lawsuits are stronger, investors react more positively to news of a lawsuit being resolved than to news of a lawsuit being filed, and, apart from the length of the announcement period, all decisions defining event study methodology can be considered minor modeling choices.