



The Value of Analyst Stock Recommendations

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Our Research Agenda

- Are Analyst Recommendations Valuable?
- Does Value translate into Alpha?



Summary of Two Papers (Barber, Lehavy, McNichols, and Trueman)

Can Investors Profit from the Prophets? Consensus Analyst Recommendations and Stock Returns, *Journal of Finance*, April 2001.

Prophets and Losses: Reassessing the Returns to Analyst Stock Recommendations, *working paper*, May 2001.

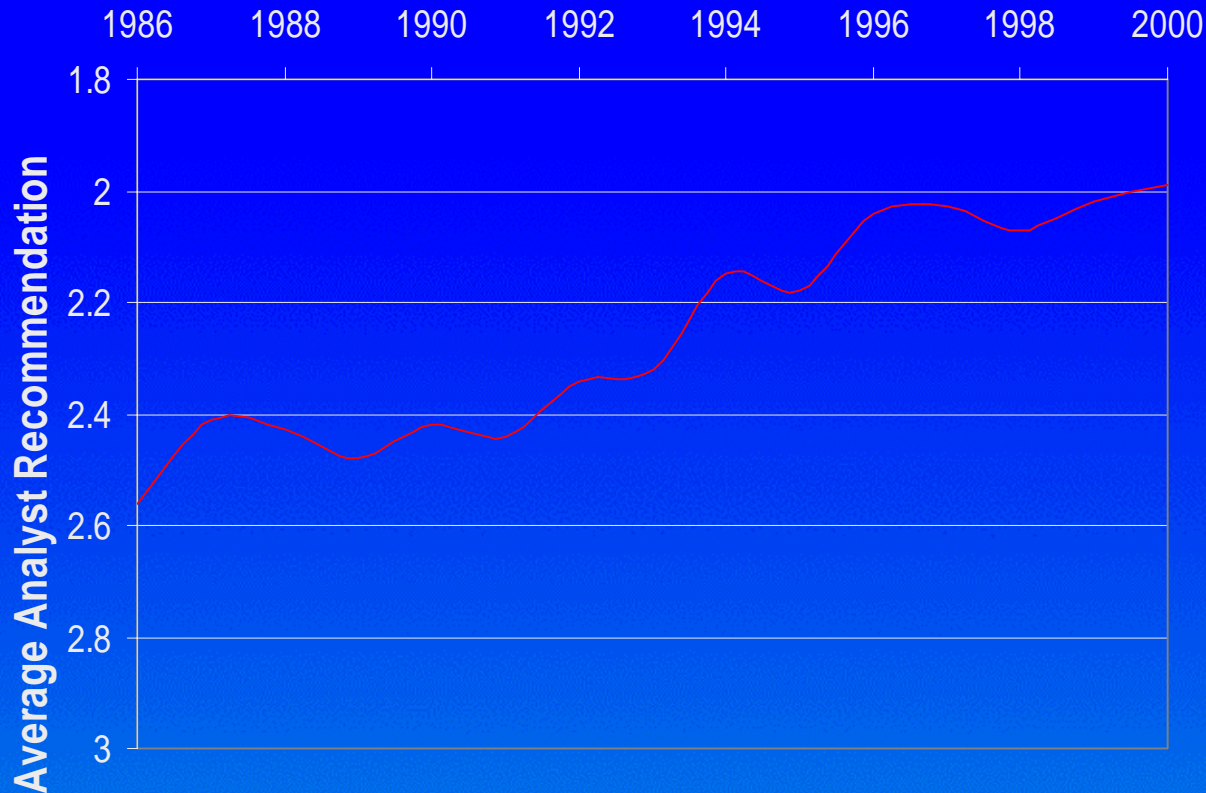
Recommendations Data 1986 to 2000

- Zacks (1986-1996)
- First Call (1996-2000)
- More than 500,000 recommendations
- Hundreds of Brokerage Houses
- Recommendations Range from:
 - “Strong Buy” (coded as a 1) to
 - “Strong Sell” (coded as a 5)

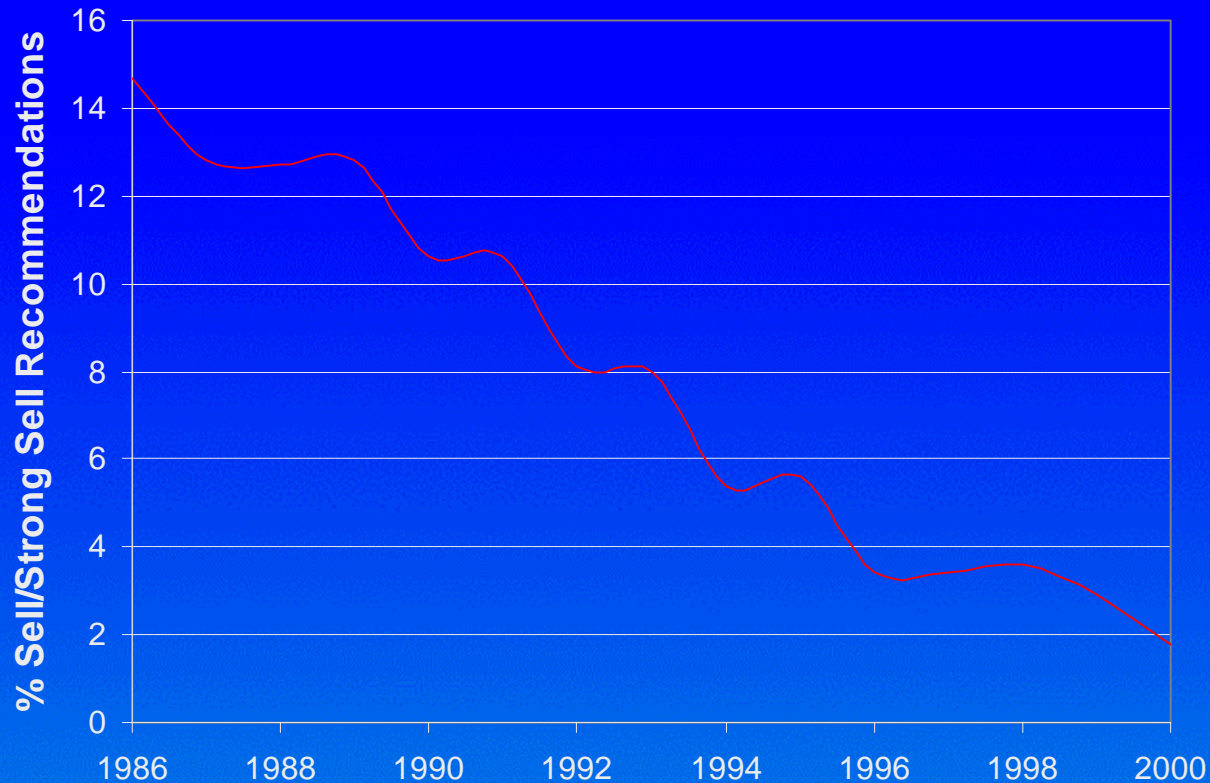
Some Background: 1996

% of Listed Firms Covered	60
% of Market Cap Covered	96
Analysts per Firm	5
Firms per Analyst	13
Average Rating	2.11

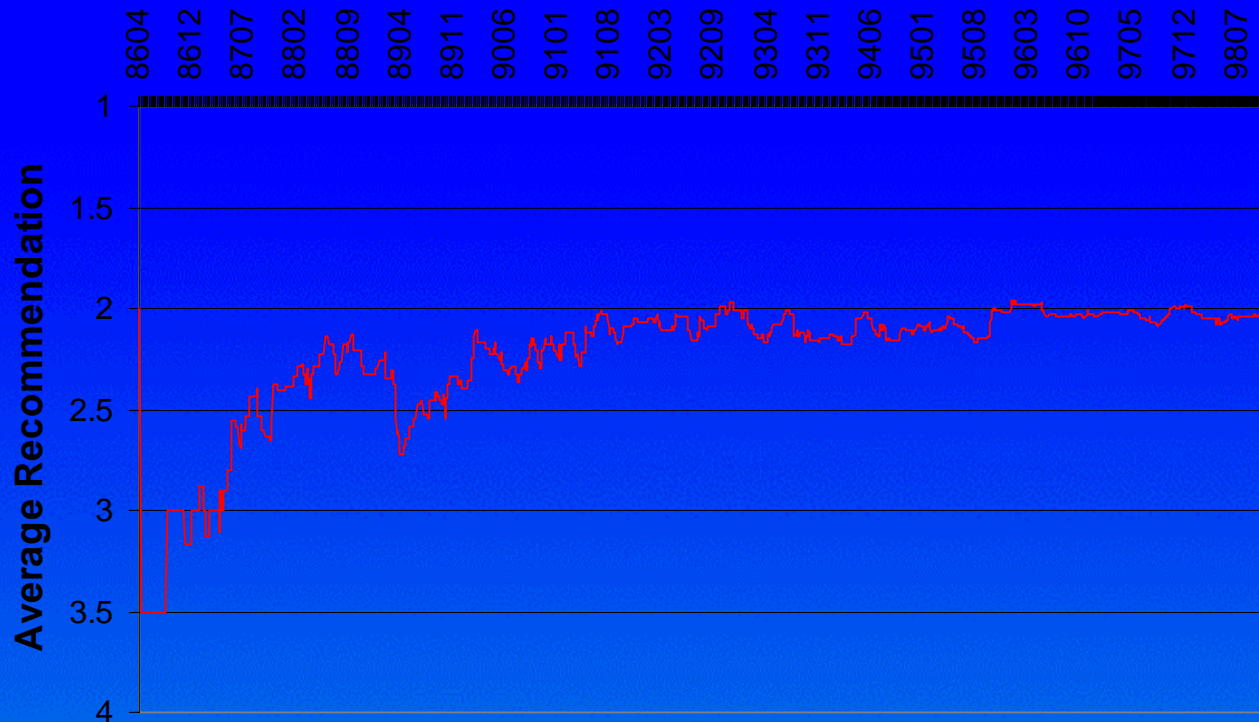
Have Analysts Become more Bullish?



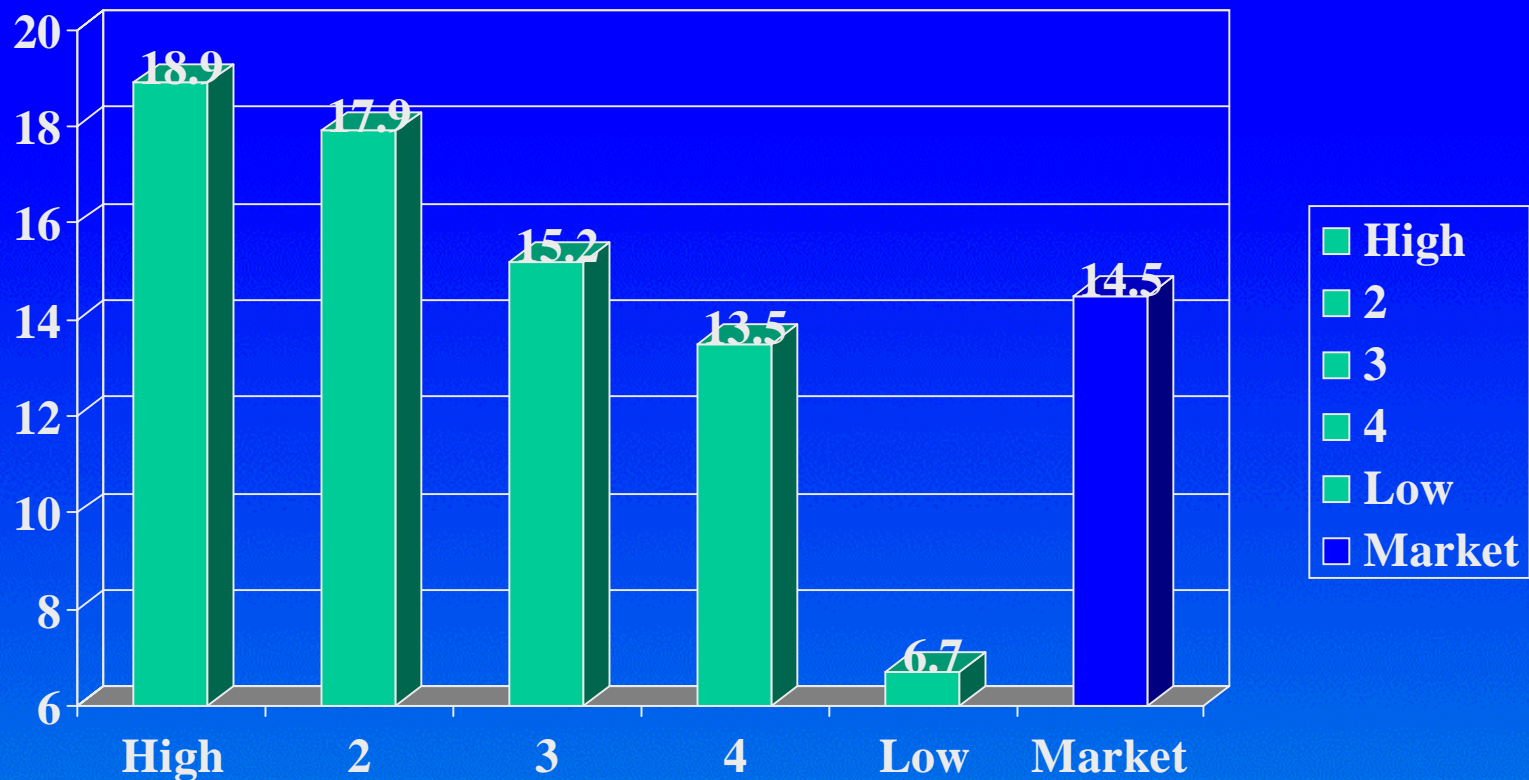
Are Analysts more Reluctant to Issue Sell Recommendations?



A Consensus Recommendation: Microsoft

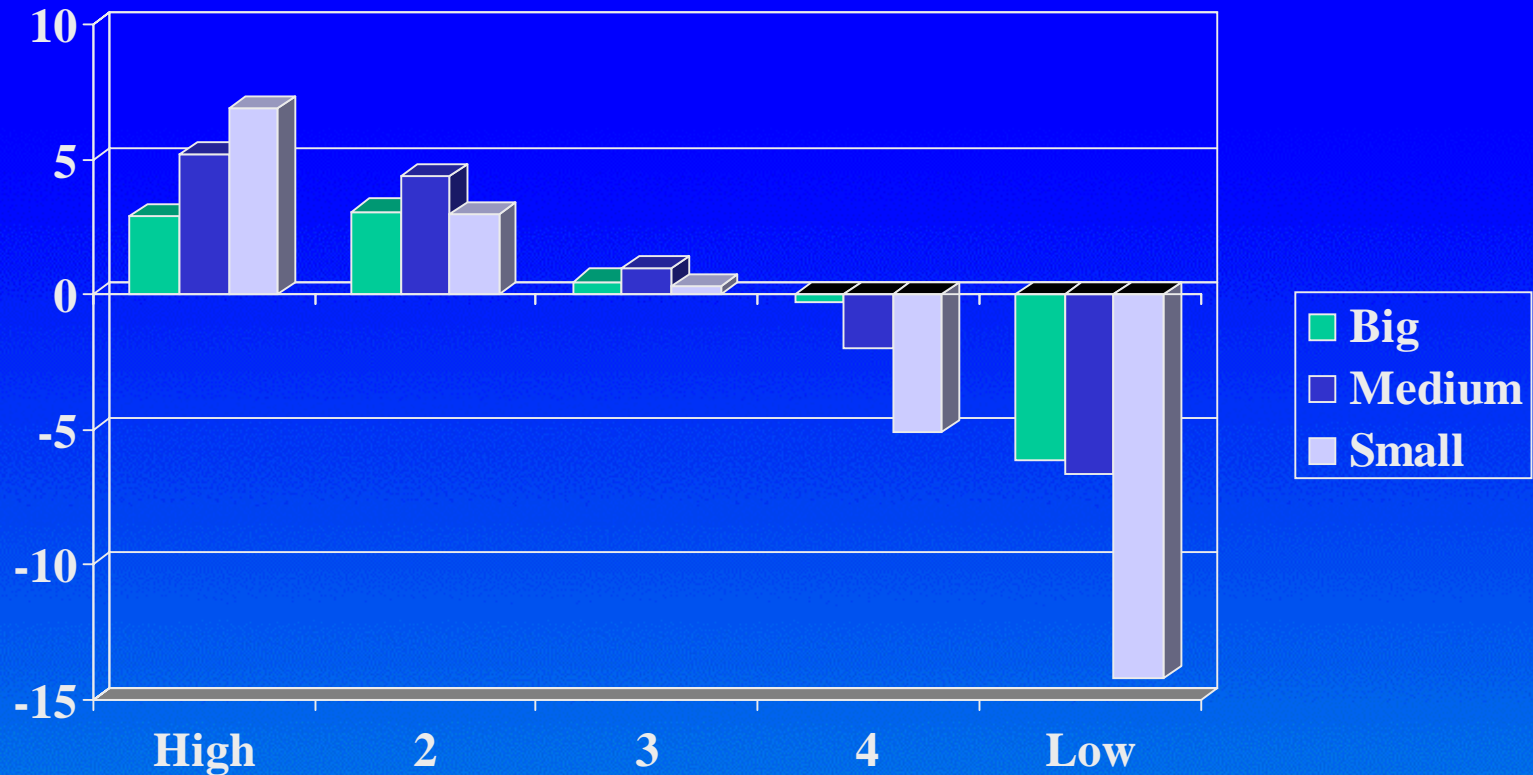


Following Analyst Recommendations: 1986 - 1996

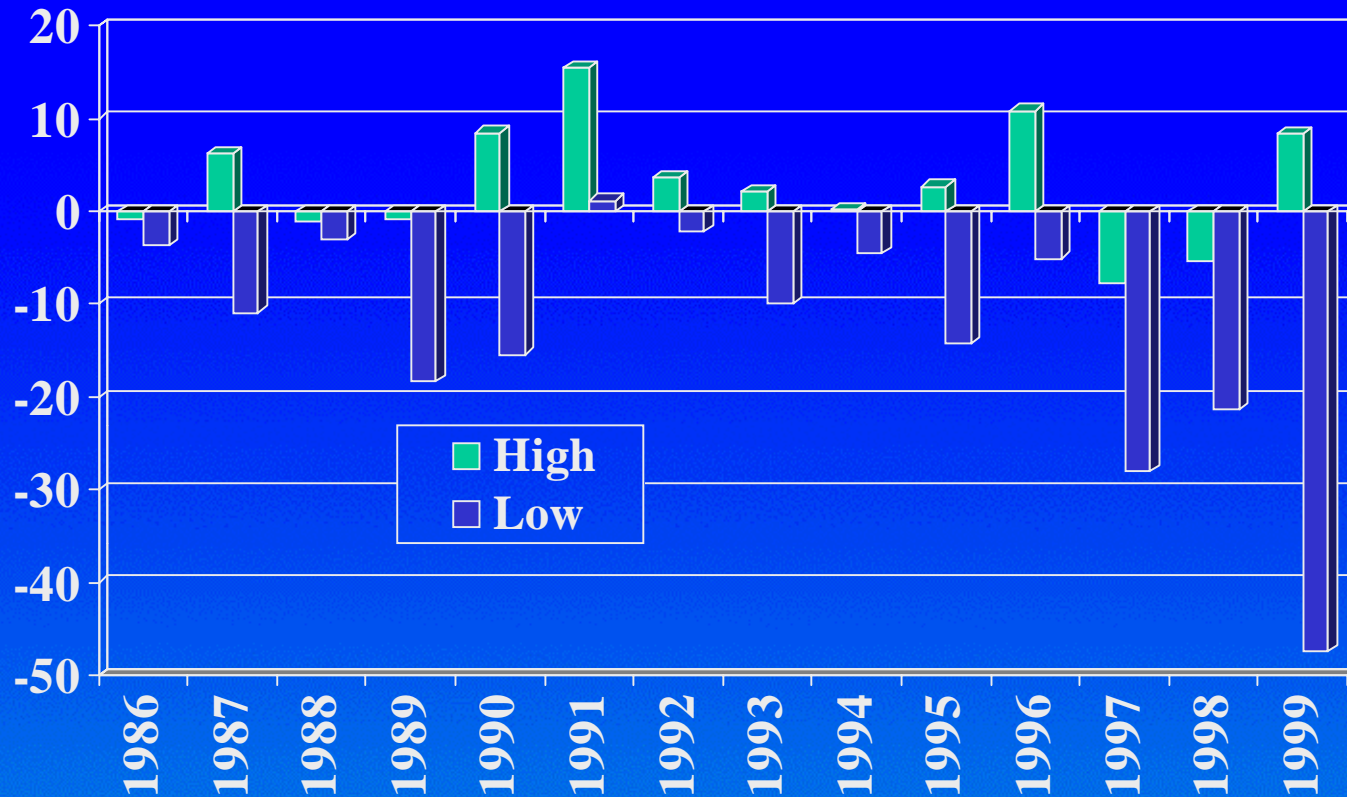


Results by Firm Size

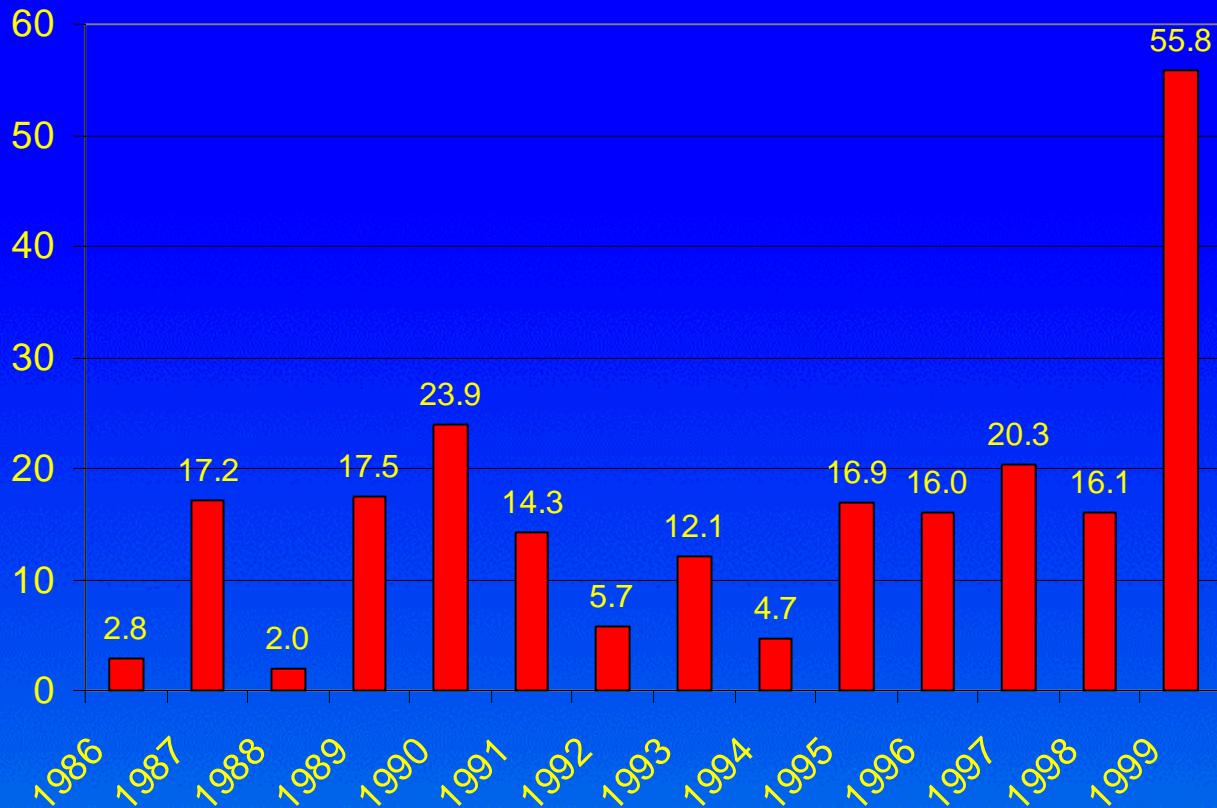
1986 to 1996



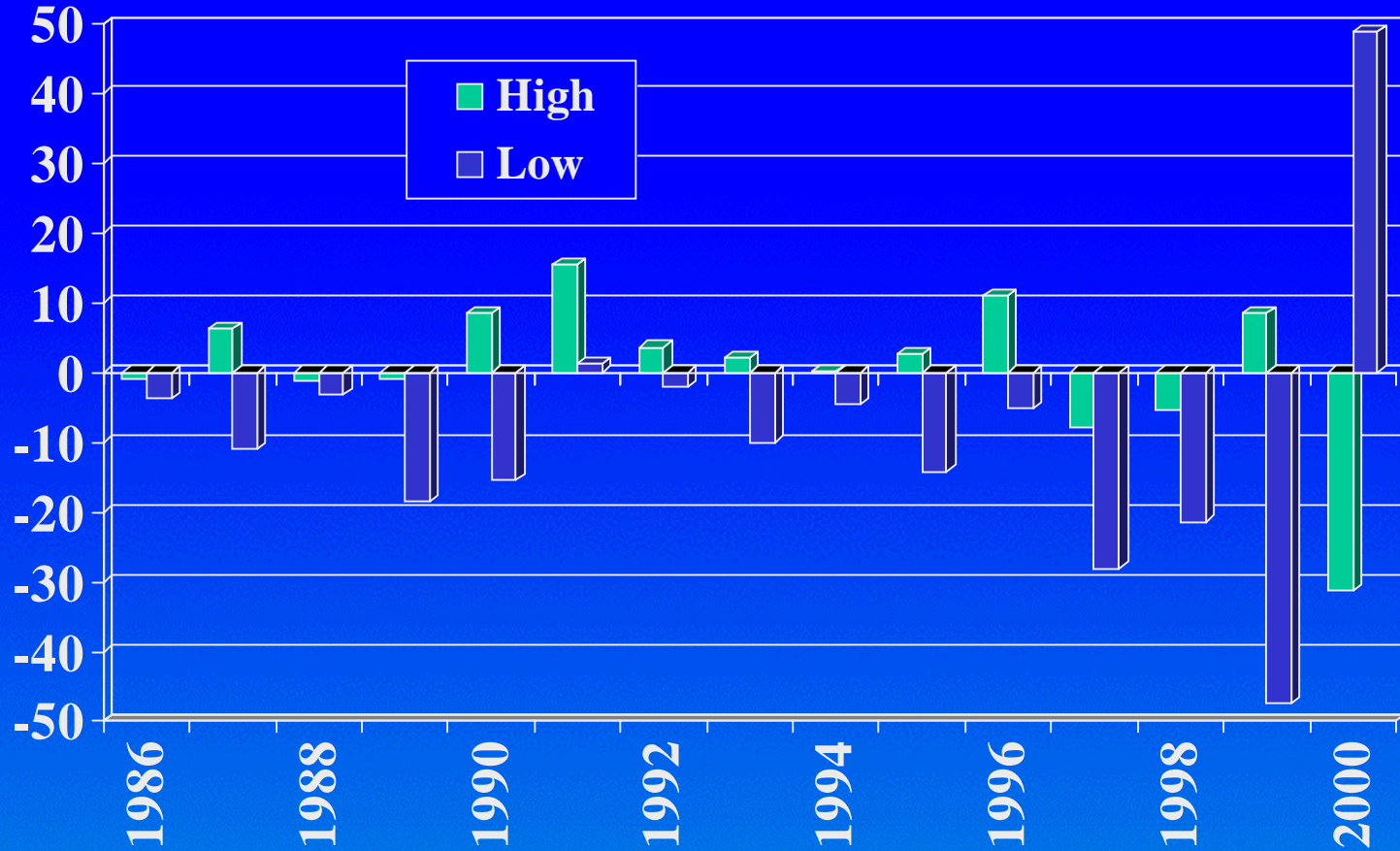
Highly Recommended and Least Favorably Recommended: 1986 to 1999



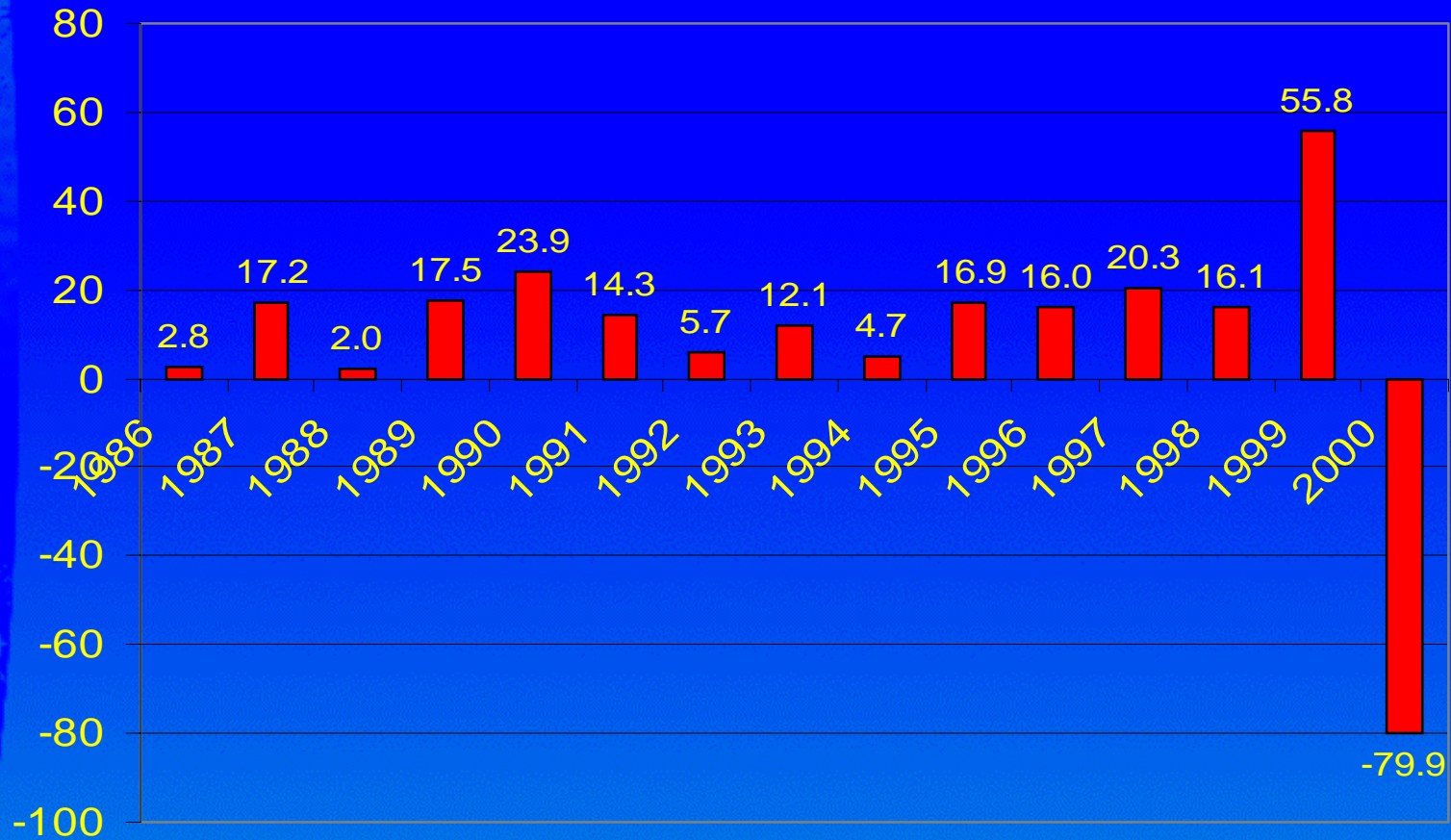
The Analyst Spread: 1986-1999



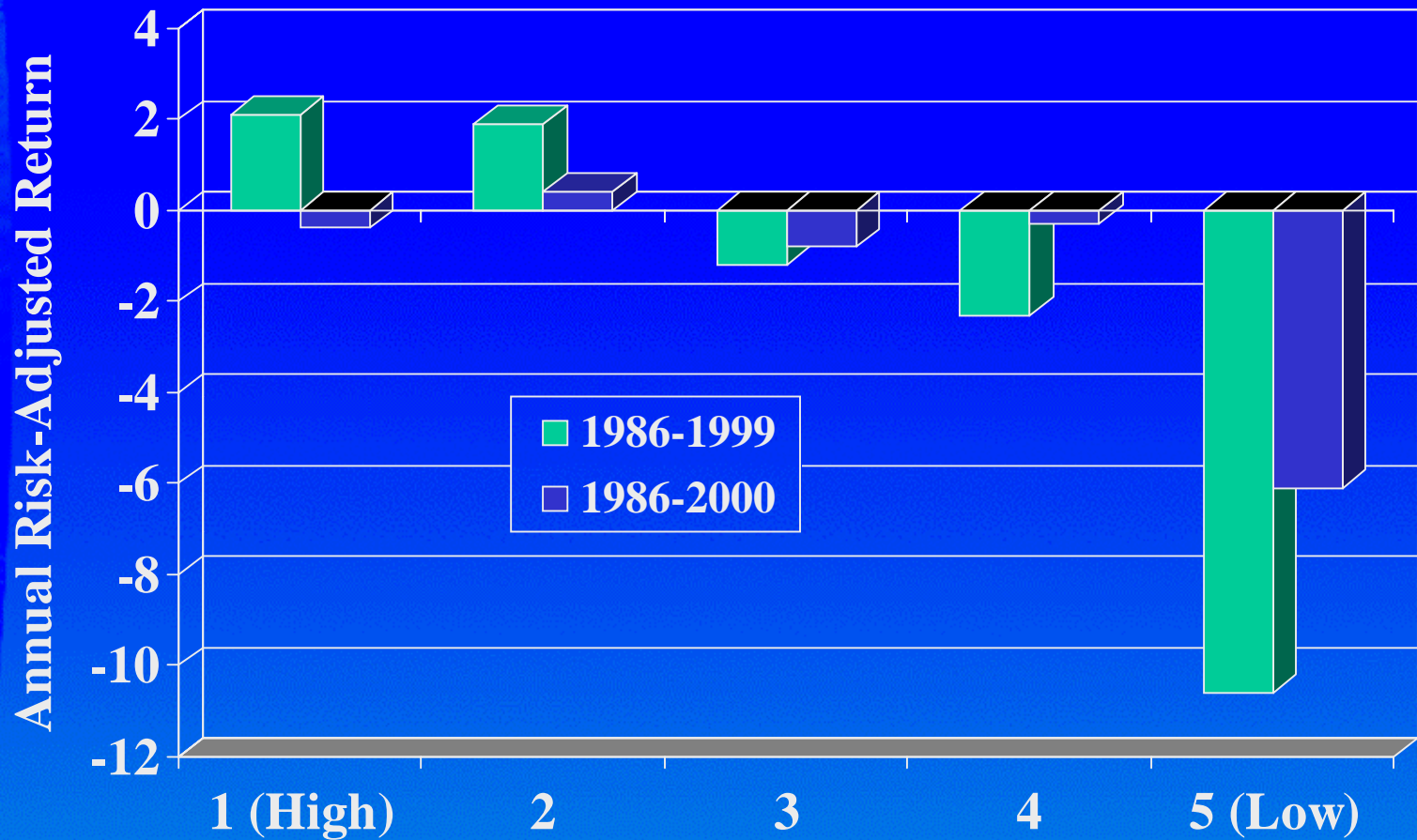
The 2000 Disaster



The Revised Analyst Spread



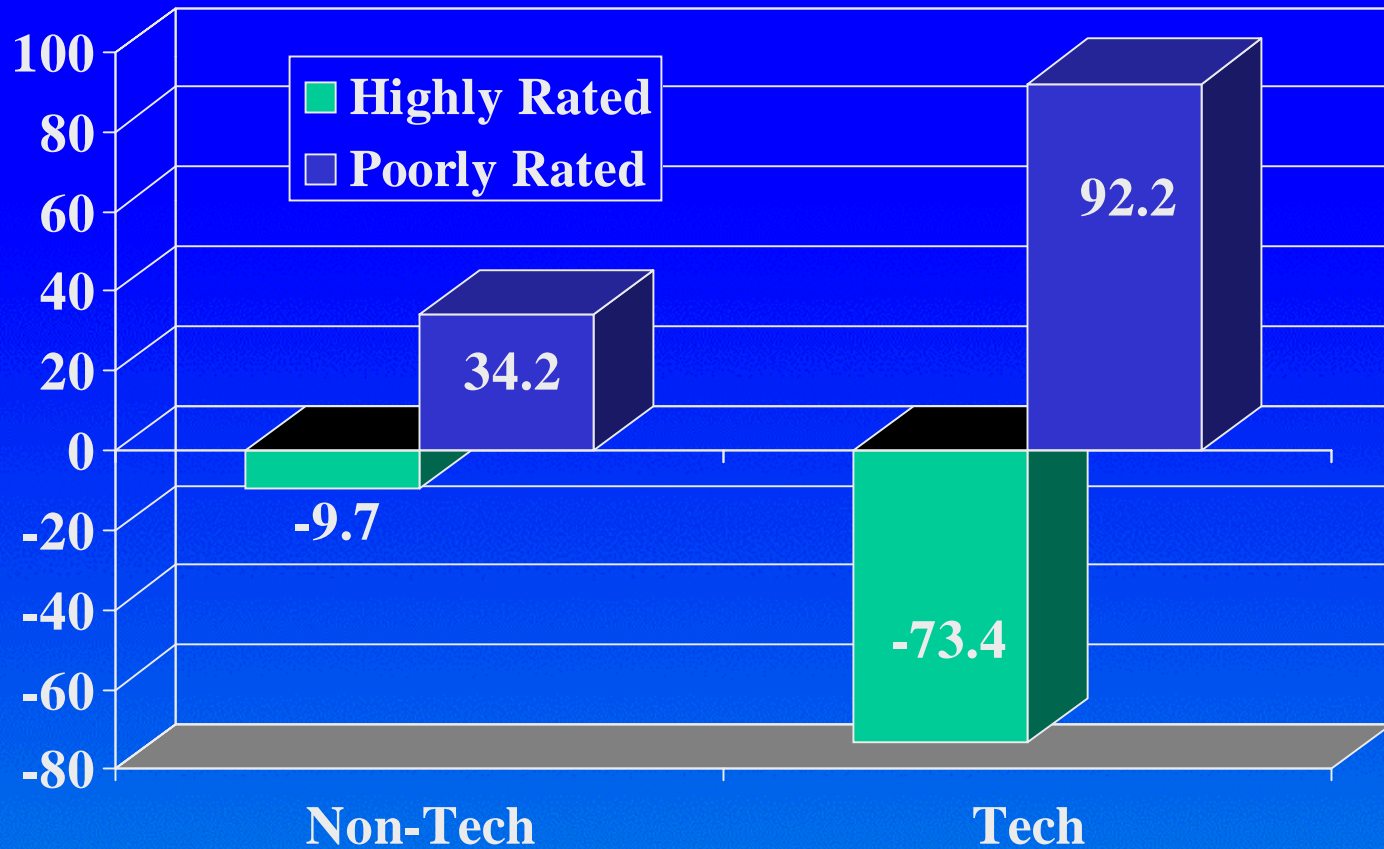
What a Difference a Year Makes



The Analyst Spread by Month in 2000



Tech vs. Non-Tech 2000



Conclusions

- The value of Analyst Recommendations is largely confined to sell recommendations
- Sell recommendations are rare
- The 2000 disaster is a mystery

Research Agenda

- The effect of independence on Analyst Recommendations
- Are some analysts better than others?