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Analysts' stock recommendations are not only independent, they're useful

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Using intraday data that separated stock market reactions to company news releases issued between 2003 and 2010 from reactions to analysts' revisions to recommendations, the researchers found that analysts do not rehash the company line. Rather, they help investors with stock valuation by issuing confirming revisions and also reverse prevailing market beliefs by issuing contrary revisions. Only 28 percent of revisions actually dovetailed with the corporate news they followed, the study found. These revisions, moreover, actually offered more information than did the corporate releases.

The study was published in the *Journal of Accounting Research*.

"Overall our findings suggest that analysts play important information roles in the capital markets and are inconsistent with the notion that analyst recommendations primarily piggyback on recent corporate news," said study co-author K. Ramesh, the Herbert S. Autrey Professor of Accounting at Rice University's Jones Graduate School of Business. "In fact, analysts not only provide new information beyond corporate news, but also help shape the market's assessment of corporate disclosures."

The study is the first to investigate short-window intraday market reactions to revisions issued after hours, which account for 70 percent of all recommendation revisions in the study's sample period. Analysts' incentives to issue revisions after hours appear to reflect demands from large institutional clients, who dominate after-hours trading, the study found. More importantly, the results show that the after-hours revisions are associated with significantly greater price reactions and different price-reaction patterns than revisions issued during regular trading hours.

Ramesh's co-authors included Edward Xuejun Li, an associate professor of accountancy at Baruch's Zicklin School of Business; Min Shen, an associate professor of accountancy at the Zicklin School; and Joanna Shuang Wu, the Susanna and Evans Y. Lam Professor of Business Administration at Rochester's Simon Business School.

Provided by Rice University

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