Study shows investors lose, insiders win when IPOs involve analysts

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When equity analysts are more involved in a firm's initial public offering, investors who purchase stock based on these analysts' reports lose more than 3 percent of their investment, according to a new study from the University at Buffalo School of Management.

Forthcoming in the *Journal of Accounting and Economics*, the study found that information from these reports is more optimistic, less informative and less accurate, resulting in losses for investors but benefiting investment banks, analysts and firms through boosted share trading and pricing. Equity analysts break investment opportunities down company by company to try to pinpoint the investment potential of each.

"In the early 2000s, government regulation removed equity analysts from the IPO process because they were accused of biasing their research to generate more business for banks," says study co-author Michael Dambra, PhD, assistant professor of accounting and law in the UB School of Management. "But the JOBS Act reintegrated these analysts back into the process in 2012, resulting in this less accurate information that benefits industry insiders."

The authors analyzed more than 1,000 IPOs from 2004 through 2014 to investigate how the increased IPO involvement afforded by the Jumpstart Our Business Startups (JOBS) Act has affected analyst behavior. They say that any deregulation designed to further integrate analysts into the IPO process may have adverse, unintended consequences.

"If these JOBS Act provisions are extended, we may see more overly optimistic research that further tilts the playing field in favor of large institutional investors," says Dambra.

Provided by University at Buffalo