

Stock market shows greater reaction to forecasts by analysts with favorable surnames

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Financial analysts whose surnames are perceived as favourable elicit stronger market reactions to their earnings forecasts, new research from

Cass Business School has found.

The researchers found that following the 9/11 terrorist attacks, market reactions weakened for forecasts from analysts with Middle Eastern surnames. They also found that following the French and German governments' opposition to the US-led Iraq War, the US market reactions weakened for analysts with French or German surnames. This effect was stronger in firms with lower institutional ownership and for analysts with non-American first names.

The researchers measured surname favourability using the US historical immigration records to identify countries of origin associated with a particular surname and the Gallup survey data on Americans' favourability toward foreign countries.

Dr. Jay Jung, assistant professor of accounting at Cass Business School, said surname favourability was not associated with [forecast](#) quality such as accuracy, bias, and timeliness but rather it suggested the investors made biased judgements based on their perception of analysts' [surnames](#).

"Our finding is consistent with the prediction based on motivated reasoning that people have a natural desire to draw conclusions that they are motivated to reach. If investors have favourable views toward an analyst due to his or her surname, they are motivated to assess the analyst's forecasts as being more credible or of higher quality because it reduces the unpleasant inconsistency between their attitudes and judgments," said Dr. Jung.

Dr. Jung said surname favourability did have a complementary effect on analysts' career outcomes, helping analysts prosper in their profession.

"We found that, conditional on good forecasting performance, having a favourable surname made it more likely for an analyst to get elected as

an All-Star analyst and survive in the profession when his or her brokerage house went out of business or went through a M&A (mergers and acquisition) process," he adds.

Dr. Jung said surname favourability also had impact on price drifts in the [stock market](#).

"The speed at which stock prices reacted to an analyst's forecasts was faster when the analyst had a favourable surname. We found significantly smaller delayed price responses."

Dr. Jung said the research demonstrated that investors' perception of an analyst' surname not only influences their information processing in capital markets but also affects market efficiency and leads to different labour market consequences for finance professionals.

"It is quite interesting to see how the favorability of a surname, unrelated to the [information content](#) or quality of an analyst's forecast, influences investor reaction and price anomalies in the capital market."

More information: The research paper 'An Analyst by Any Other Surname: Surname Favorability and Market Reaction to Analyst Forecasts' is conditionally accepted for publication in the *Journal of Accounting and Economics*.

Provided by City University London

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