BAYES
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3rd Analyst Research Conference

Current topics in analyst research

9th September 2022

Centre for Financial Analysis and Reporting Research (CeFARR) and University of Cyprus

University of Cyprus

[Always learning]

3rd Analyst Research Conference

Current topics in analyst research

8:00 – 8:55	Registration and Breakfast	
8:55 – 9:00	Welcome	
SESSION 1	Chair: **Art Kraft,** Bayes Business School	
9:00 – 9:40	**Contrast Effects and Analyst Forecasts**	Presenter: **Minye Tang**, Florida International University Discussant: **Jay Jung**, Bayes Business School
9:40 – 10:20	**Predictability of Analyst Stock Recommendation Revisions**	Presenter: **Mark Piorkowski**, Indiana University Discussant: **Sonia Konstantinidi**, Bayes Business School
10:20 – 11:00	**Analysts' Strategic Information Revelation in Conference Calls**	Presenter: **Alexander Paulus**, LMU Munich School of Management Discussant: **Cristina Grande Herrera**, Bayes Business School
11:00 – 11:15	Tea/Coffee break	
SESSION 2	Chair: **Irene Karamanou**, University of Cyprus	
11:15 – 11:40	**Academic Keynote:**	Presenter: **Professor Ole-Kristian Hope**, Rotman School of Management, University of Toronto
11:40 – 12:05	**Practitioner Keynote:**	Presenter: **Themis Themistocleous**, UBS, EMEA Chief Investment Officer
12:05 – 12:45	**Analyst Institutional Client Catering and Reputation Trade off: Analysts' Strategic Timing of Recommendations**	Presenter: **Anna Agapova**, Florida Atlantic University Discussant: **Mark Clatworthy**, University of Bristol
12:45 – 13:30	Lunch	
SESSION 3	Chair: **Zacharias Petrou**, University of Liverpool	
13:45 – 14:25	**Analysts' Non-GAAP Exclusions to Forecast Lower Earnings (but Higher Valuations)**	Presenter: **Stephannie Larocque**, University of Notre Dame Discussant: **Xi Li**, London School of Economics and Political Science
14:25 – 14:05	**Does Wall Street Discriminate by Race? Evidence from Analyst Target Prices**	Presenter: **Sean Wang**, Cox School of Business Discussant: **Pawel Bilinski**, Bayes Business School
15:05 – 15:45	**Analyst Effects on Intangible Investment: Evidence from Corporate Political Investments**	Presenter: **Douglas Cook**, University of Alabama Discussant: **Aneesh Raghunandan**, London School of Economics and Political Science
15:45 – 16:00	Tea/Coffee Break	
SESSION 4	Chair: **Larissa Batrancea,** Faculty of Business (BBU)	
16:00 – 16:40	**Public Disclosure of Private Meetings: Does Observing Peers' Information Acquisition Affect Analysts' Attention Allocation?**	Presenter: **Yuan Zou**, Harvard Business School Discussant: **Stefano Cascino**, London School of Economics and Political Science
16:40 – 17:20	**Managing Decision Fatigue: Evidence from Analysts' Earnings Forecasts**	Presenter: **Yawen Jiao**, University of California, Riverside Discussant: **Irene Karamanou**, University of Cyprus
17:20	Farewell and depart for conference dinner	
18:00	**Conference Dinner:** The conference dinner will be at Chiswell Street Dining Rooms. Address: 56 Chiswell Street, London, EC1Y 4SA	

Keynote speeches

Ole-Kristian Hope

Rotman School of Management, University of Toronto

Ole-Kristian Hope has published extensively in The Accounting Review, Journal of Accounting Research, Journal of Accounting and Economics, Accounting, Organizations, and Society, Contemporary Accounting Research, Review of Accounting Studies, Management Science, and several other journals. His research findings are regularly cited by leading media outlets (e.g., The Economist, Financial Times, and Wall Street Journal) and he regularly presents his research at workshops, conferences, and consortia around the world. He has received numerous awards for research, supervision and teaching.

Themis Themistocleous

Head, European Chief Investment Office at UBS

Themis is a member of the Global Investment Committee, which formulate the global UBS House View. Themis' responsibilities also include generating investment content and investment ideas across all asset classes within Europe and marketing the UBS House View within the region.

Abstracts

9:00 – 9:40

Contrast Effects and Analyst Forecasts

Minye Tang
Florida International University

Contrast Effects and Analyst Forecasts Abstract Contrast effect occurs when decision makers unconsciously interpret a signal by contrasting it with the preceding signal. Using the setting of analyst earnings forecast revisions in response to firms' earnings announcements on consecutive days, we find evidence of contrast effects only if announcing firms on both days are covered by the analyst. The effects are driven by less experienced analysts and by scenarios where the benchmark earnings news on day t-1 is likely to receive more attention, such as larger announcing firms on day t-1 relative to firms announcing on day t or multiple announcing firms on day t-1 covered by the analysts. While prior research finds that investors tend to contrast earnings news against the preceding day's earnings news from bellwether firms, analysts do not appear to benchmark against these firms if they are not covered by the analysts. We also find that contrast effects adversely impact the analyst forecast accuracy and analysts seek to correct initial revision errors with subsequent revisions, consistent with contrast effect as a psychological bias rather than an intentional strategy. Additional analyses suggest that our results are not driven by mechanical relations between earnings news on consecutive days such as information transfer and are exacerbated when analysts suffer from limited attention or decision fatigue.

9:40 – 10:20

Predictability of Analyst Stock Recommendation Revisions

Mark Piorkowski
Indiana University

On average, analysts' stock recommendation revisions have immediate effects on stock prices. However, recent research indicates that only a small subset of recommendations are influential in the sense that they are associated with significant returns. Given the relative infrequency of recommendation revisions, we predict that analysts signal future recommendation revisions through changes in the tone of sequential research reports, which preempts market reactions when revisions are announced. We find that the signed change in tone of analysts' reports is positively associated with future recommendation revisions. Using the change in research report tone and other determinants, we construct a measure of the likelihood of a recommendation revision. This predictability measure is associated with attenuated market reactions to recommendation upgrades and a lower likelihood that the upgrades are classified as influential. We also find that our recommendation revision prediction model is better at predicting upgrades than downgrades and has similar performance to fraud prediction models in the literature.

10:20 – 11:00

Analysts' Strategic Information Revelation in Conference Calls

Alexander Paulus
LMU Munich School of Management

We study information revelation via analysts' questions in earnings conference calls and its implications for firms' information environments. Better-informed analysts (who have higher ex-ante forecast accuracy) reveal less new information in their questions than less-informed analysts. Consistent with strategic safeguarding of their information advantage, analysts reveal less (more) information when exposed to strong competition (high information uncertainty). Information revelation is linked to ex-post benefits (higher absolute forecast accuracy) and costs (lower relative forecast accuracy) to analysts. Finally, it is associated with the informativeness of managers' answers and affects trading volume, bid-ask spreads, and returns. We conclude that analysts' strategic information revelation shapes firms' information environments.

12:05 -12:45

Analyst Institutional Client Catering and Reputation Trade off: Analysts' Strategic Timing of Recommendations

Anna Agapova
Florida Atlantic University

are part of institutional investors' portfolios. Using a sample of analysts' recommendations on U.S. firms, we document a pattern in analysts' recommendations and updates that are more optimistic in a month of the end of a quarter and less optimistic in a month of the beginning of a quarter. However, we do not find a clear pattern of recommendations' timing tied to the size of institutional holdings in the stock.

13:45 – 14:25

Analysts' Non-GAAP Exclusions to Forecast Lower Earnings (but Higher Valuations)

Stephannie Larocque
University of Notre Dame

Although prior literature often assumes analysts' non-GAAP exclusions are motivated by a desire to forecast higher earnings and valuations, a significant portion (i.e., nearly 20%) of analysts' nonGAAP exclusions result in lower street than GAAP EPS forecasts. We exploit differences across analysts in their non-GAAP exclusions (including for the same firm/period) and document a robust positive relation between analysts' EPS-decreasing exclusions and the optimism of their concurrently-issued target prices. This association is inconsistent with the conventional wisdom that lower valuation inputs lead to lower valuation, but consistent with well-documented cognitive biases where analysts' extra effort to understand and forecast excluded items make them more optimistic towards the forecasted firms. Our results are not driven by analysts following managers' disclosures or reverse causality. Further, EPS-decreasing exclusions accompany higher growth forecasts than their non-exclusion counterparts. Finally, short-term market reactions suggest skepticism about higher valuations accompanied by EPS-decreasing exclusions.

14:25 – 14:05

Does Wall Street Discriminate by Race? Evidence from Analyst Target Prices

Sean Wang
Cox School of Business

Analyzing over 97,000 price target valuations from 2005-2020, we find analysts' judgments reflect over four times more pessimism per dollar of negative earnings news for Non-White CEO firms, resulting in lower target valuations. These lower target valuations are associated with an increased likelihood that Non-White CEO firms exceed their price targets, suggesting such pessimism is unwarranted. Further analyses reveal that the time-series variation in analysts' pessimism is associated with several exogenous measures of racial sentiment (i.e., Donald Trump's presidency, Black Lives Matter, and the annual number of racial bias crimes), consistent with racial discrimination that results in a greater negative impact of bad news on analysts' valuations when the CEO is Non-White.

Abstracts

15:05 – 15:45

Analyst Effects on Intangible Investment: Evidence from Corporate Political Investments

Douglas Cook
University of Alabama

Using brokerage merger and closure events, we address how analysts affect intangible investment using a novel measure of intangibles – corporate political investments (CPI). While other common proxies for intangibles represent firm benefits, CPI typically represents agency problems and provides a different perspective for our study. We find a negative relationship between analyst coverage and CPI, with a 28.3% increase in CPI over a three-year window after a quasi-exogenous analyst reduction. Analyst monitoring preferences for reduced predation risk, future earnings stability, and reduced agency costs induce CPI reductions in firms facing high financial constraints and high competition. Our findings question prior studies indicating analyst myopic pressure decreases innovative output, as analyst information production favors trade secrets over patenting. We find analyst coverage is positively related to firm valuation and nonpatent based measures of innovative efficiency in financially constrained firms.

16:00 – 16:40

Public Disclosure of Private Meetings: Does Observing Peers' Information Acquisition Affect Analysts' Attention Allocation?

Yuan Zou
Harvard Business School

We investigate the impact of observing peers' information acquisition on financial analysts' attention allocation. Using the timely disclosure mandate by the Shenzhen Stock Exchange as a setting, we find that, when analysts can observe that a firm is visited by other analysts, they allocate less attention to it. This finding is consistent with the conjecture that the timely disclosure reveals the relative information advantage of visiting analysts, leading nonvisiting analysts to reallocate their attention. Further evidence suggests that the timely disclosure has positive externalities in the form of increased attention and improved informational efficiency for nonvisited peer firms, especially those with low analyst following.

16:40 – 17:20

Managing Decision Fatigue: Evidence from Analysts' Earnings Forecasts

Yawen Jiao
University of California Riverside

Prior literature shows decision fatigue (the decline of decision quality after extensive decision making) reduces analysts' forecast accuracy. We study whether analysts strategically manage decision fatigue. Firms within an analyst's research portfolio can differentially affect the analyst's reputation and career, with larger firms with greater trading volumes and institutional ownership being more important. We find that analysts choose to issue forecasts for more important firms when they are less decision fatigued, i.e., when the number of prior forecasts the analyst has issued in the day is lower, and the tendency to do so is further enhanced if the firm is also more difficult/complex to forecast. Analysts with stronger career concerns (e.g., young analysts or analysts in low-status brokerage houses) manage decision fatigue more, and so do analysts who are affected by decision fatigue more (e.g., analysts who become decision fatigued more easily or perform a greater number of forecasts in the day). Finally, analysts experience more favorable career outcomes after strategically managing decision fatigue.

Contact

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