"Does the scope of the sell-side analyst industry matter? An examination of bias, accuracy and information content of analyst reports"

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Abstract

This paper examines factors related to changes in the scope of the sell-side analyst industry and whether such changes affect the quality of analyst reports as well as how information is impounded into prices. We find that factors commonly associated with economic and financial market growth and profitability within the financial services industry are positively associated with growth in the analyst industry. We also find evidence of a differential growth pattern for analysts that work for investment banks compared with those that do not based on a quasi-natural experiment using changes in financial regulations. Furthermore, increased analyst presence results in better functioning markets across several dimensions: forecasts are more accurate and less biased, and their information is impounded into prices faster. These results are consistent using both standard regression analysis and quasi-natural experiments that attempt to examine causality more precisely. Overall, the findings suggest that analysts provide positive externalities to financial markets.