Dispersion in Analyst Forecasts and the Profitability of Earnings Momentum Strategies

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Abstract

This paper shows that the dispersion in analysts' consensus forecasts contains incremental information to predict future stock returns. Consistent with prior research, stock prices in the German market underreact to news about future earnings and drift in the direction suggested by analysts' forecasts revisions. Even higher abnormal returns can be achieved by applying such an earnings momentum strategy to stocks with a low dispersion in analyst forecasts. These results support one of the recent behavioural models in which investors underweight new evidence and conservatively update their beliefs in the right direction, but by too little in magnitude with respect to more objective information.

Citing Literature ⌄

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