

## The Effect of Investment Banking Relationships on Financial Analysts' Earnings Forecasts and Investment Recommendations\*

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### Abstract

**Abstract.** This study shows that financial analysts of brokerage firms that provide investment banking services to a company (investment banker analysts) are optimistic, relative to other (noninvestment banker) analysts, in their earnings forecasts and investment recommendations. Returns earned by following the investment recommendations of investment banker analysts, however, are not significantly different from those of non-investment banker analysts. Given that information regarding the investment banking relationships of brokerage firms is publicly available, we find evidence that capital market participants rely relatively less on the investment banker analysts in forming their earnings expectations. Although we find a significant capital market reaction around the noninvestment banker analysts' research report dates and not around the investment banker analysts' research report dates, the difference between the two market reactions is not statistically significant. Finally, we find that investment banker analysts' earnings forecasts are, on average, as accurate as those of noninvestment banker analysts.

**Résumé.** Les auteurs mettent en évidence le fait que les analystes financiers des maisons de courtage qui offrent des services de prise ferme aux entreprises (les analystes de courtiers preneurs ferme) sont optimistes dans leurs prévisions de bénéfices et leurs recommandations de placements, par comparaison aux autres analystes (c'est-à-dire aux analystes de courtiers qui ne sont pas preneurs ferme). Les rendements obtenus par les investisseurs qui observent les recommandations de placements des analystes de courtiers preneurs ferme ne sont cependant pas sensiblement différents de ceux qu'obtiennent les investisseurs qui se fient aux analystes des courtiers qui ne sont pas preneurs ferme. Compte tenu du fait que l'information relative aux

relations qu'entretennent les maisons de courtage en matière de prise ferme est du domaine public, les constatations des auteurs confirment que les participants au marché financier s'appuient relativement moins sur le verdict des analystes des courtiers preneurs ferme dans le calcul de leur espérance de gains. Bien que les auteurs observent une réaction marquée du marché financier à proximité des dates de publication des rapports de recherche des analystes des courtiers qui ne sont pas preneurs ferme, ce qui n'est pas le cas à proximité des dates de publication des rapports de recherche des analystes des courtiers preneurs ferme, la différence entre ces deux réactions n'est pas statistiquement significative. Enfin, les auteurs constatent que les prévisions de bénéfices des analystes des courtiers preneurs ferme sont, en moyenne, aussi exactes que celles des analystes des courtiers qui ne sont pas preneurs ferme.

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