

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

AMITABH DUGAR, SIVA NATHAN

First published: Fall 1995

<https://doi.org/10.1111/j.1911-3846.1995.tb00484.x>

* Accepted by Lane Daley. This research was supported by grants from the McNair/SROP program and the Accounting Department at Michigan State University. We are grateful for comments from two anonymous reviewers, the editor, and workshop participants at the following universities: Emory, Georgia State, Maryland, Michigan, Michigan State, Purdue, and SUNY-Buffalo. We also thank Marie Archambault, Janell Blazovich, Susheela Mahanti, and Dave Qi for providing research assistance, and Faye Backie for assistance in obtaining the data. We are grateful to *Investext, Inc.* for providing analysts' research reports at a discounted price. All errors are the responsibility of the authors.

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

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

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.

References

Abarbanell, J. Do Analysts Earnings Forecasts Incorporate Information in Prior Stock Price Changes *Journal of Accounting and Economics* (June 1991), 147–166.

 | [Google Scholar](#)  |

Abarbanell, J., and V. Bernard Tests of Analysts' Overreaction/Underreaction to Earnings Information as an Explanation for Anomalous Stock Price Behavior. *Journal of Finance* (July 1992), 1181–1207.

 | [Google Scholar](#)  |

Abdel-khalik, A. R., and B. Ajinkya Returns to Informational Advantages: The Case of Analysts' Forecast Revisions. *The Accounting Review* (October 1982), 661–680.

 | [Google Scholar](#)  |

Affleck-Graves, J., L. Davis, and R. Mendenhall Forecasts of Earnings Per Share: Possible Sources of Analyst Superiority and Bias. *Contemporary Accounting Research* (Spring 1990), 501–517.

 | [Google Scholar](#)  |

Beneish, M. Stock Prices and the Dissemination of Analysts' Recommendations. *Journal of Business*, (Vol. 64, No. 3, 1991), 393–416.

 | [Web of Science®](#)  | [Google Scholar](#)  |

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Bjerring, J., J. Lakonishok, and T. Vermaelen Stock Prices and Financial Analysts' Recommendations. *Journal of Finance* (March 1983), 187–204.

[Google Scholar](#) 

Brennan, M., and P. Hughes Stock Prices and the Supply of Information. *Journal of Finance* (December 1991), 1665–1691.

[Google Scholar](#) 

Brous, P. Common Stock Offerings and Earnings Expectations: A Test of the Release of Unfavorable Information. *Journal of Finance* (September 1992), 1517–1536.

[Google Scholar](#) 

Brous, P., and O. Kini A Reexamination of Analysts' Earnings Forecasts for Takeover Targets. *Journal of Financial Economics* (April 1993), 201–225.

[Google Scholar](#) 

Brown, L. Forecast Selection When All Forecasts Are Not Equally Recent. *International Journal of Forecasting* (November 1991), 349–356.

[Google Scholar](#) 

Brown, L. An Evaluation of Alternative Proxies for the Market's Assessment of Unexpected Earnings. *Journal of Accounting and Economics* (July 1987b), 117–41.

[Google Scholar](#) 

Brown, L., and M. Rozeff The Superiority of Analyst Forecasts as Measures of Expectations: Evidence from Earnings. *Journal of Finance* (March 1978), 1–16.

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Brown, P., G. Foster, and E. Noreen Security Analysts' Multi-Year Earnings Forecasts and the Capital Market. *Studies in Accounting Research* No.21. American Accounting Association, 1985.

 | [Google Scholar](#)  |

Butler, K., and L. Lang The Forecast Accuracy of Individual Analysts: Evidence of Systematic Optimism and Pessimism. *Journal of Accounting Research* (Spring 1991), 150–156.

 | [Google Scholar](#)  |

Corporate Finance Bluebook. *Zehring Publications* (New York) and Silver Platter Information, Inc. (Boston, MA).

 | [Google Scholar](#)  |

Corporate and Industry Research Reports. JA Micropublishing, Eastchester, NY.

 | [Google Scholar](#)  |

Cramer, J. Mean and Variance of R^2 in Small and Moderate Samples. *Journal of Econometrics* (July 1987), 253–266.

 | [Google Scholar](#)  |

DeBondt, W., and R. Thaler Do Security Analysts Overreact *American Economic Review* (May 1990), 52–57.

 | [Google Scholar](#)  |

Dempsey, S. Predisclosure Information Search Incentives, Analyst Following and Earnings Announcement Price Response. *The Accounting Review* (October 1989), 748–757.

 | [Google Scholar](#)  |

Donnelly, B. Tough Times for Research Directors. *The Wall Street Journal* (May 28, 1991 a).



This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Dorfman, J. Analysts Devote More Time to Selling as Firms Keep Scorecard on Performance. *The Wall Street Journal* (October 29, 1991).

[Google Scholar](#)

Dorfman, J. Analysts Frequently Own Stocks They Tout. *The Wall Street Journal* (January 14, 1992a).

[Google Scholar](#)

Dorfman, J. Analyst Cheered Cascade But Sold Stock. *The Wall Street Journal* (March 11, 1992b).

[Google Scholar](#)

Eccles, R. G., and D. B. Crane *Doing Deals: Investment Banks at Work*. Harvard Business School Press, 1988.

[Google Scholar](#)

Efron, B. Bootstrap Methods: Another Look at the Jackknife. *Annals of Statistics* (January 1979), 1–26.

[Google Scholar](#)

Financial Analysts Federation. *The Code of Ethics and the Standards of Professional Conduct*, 1988.

[Google Scholar](#)

Francis, J., and D. Philbrick Analysts' Decisions as Products of a Multi-Task Environment. *Journal of Accounting Research* (Autumn 1993), 216–230.

[Google Scholar](#)

Francis, J., and L. Soffer The Relative Informativeness of Analysts' Stock Recommendations and Earnings Forecast Revisions. Working Paper. Graduate School of Business, University of Chicago, August 1994.

[Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Google Scholar](#) 

Harris, T., M. Lang, and H. P. Möller The Value Relevance of German Accounting Measures: An Empirical Analysis. *Journal of Accounting Research* (Autumn 1994), 187–209.

[Google Scholar](#) 

Hazen, T. L. *Treatise on the Law of Securities Regulation*. Second Edition, **Volumes 1 and 2**, West Publishing Company, 1990.

[Google Scholar](#) 

Investment Advisers Act of 1940. *Code of Federal Regulations*. Federal Law Reporter. Title 17, Part 275.

[Google Scholar](#) 

Kang, S., J. O'Brien, and K. Sivaramakrishnan Analysts' Interim Earnings Forecasts: Evidence on the Forecasting Process. *Journal of Accounting Research* (Spring 1994), 103–112.

[Google Scholar](#) 

Konrad, W., and D. Greising Are Analysts Putting Their Mouths Where the Money Is *The Wall Street Journal* (December 18, 1989).

[Google Scholar](#) 

Krishnan, M., and K. Sivaramakrishnan A Theory of Analyst Forecast Bias. Working Paper. Graduate School of Industrial Administration, Carnegie Mellon University, January 1994.

[Google Scholar](#) 

Laderman, L., C. Hawkins, and I. Recio How Much Should You Trust Your Analyst *Business Week* (July 23, 1990), 54–56.

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Google Scholar](#) 

Lys, T., and S. Sohn The Association between Revisions of Financial Analysts' Earnings Forecasts and Security-Price Changes. *Journal of Accounting and Economics* (December 1990), 341–363.

[Google Scholar](#) 

Marais, L. An Application of the Bootstrap Method to the Analysis of Squared, Standardized Market Model Prediction Errors. *Journal of Accounting Research* (Supplement 1984), 34–54.

[Google Scholar](#) 

McNichols, M. Discussion of Analyst Following and Institutional Ownership. *Journal of Accounting Research* (Supplement 1990), 77–82.

[Web of Science®](#)  | [Google Scholar](#) 

Moyer, R., R. Chatfield, and P. Sisneros Security Analyst Monitoring Activity: Agency Costs and Information Demands. *Journal of Financial and Quantitative Analysis* (December 1989), 503–512.

[Google Scholar](#) 

Noreen, E. *Computer Intensive Methods for Testing Hypotheses: An Introduction*. John Wiley and Sons, 1989.

[Google Scholar](#) 

O'Brien, P. Analysts' Forecasts as Earnings Expectations. *Journal of Accounting and Economics* (January 1988), 53–83.

[Google Scholar](#) 

O'Brien, P., and R. Bhushan Analyst Following and Institutional Ownership. *Journal of Accounting Research* (Supplement 1990), 55–76.

[CAS](#)  | [Web of Science®](#)  | [Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Siconolfi, M. At Morgan Stanley, Analysts were Urged to Soften Harsh Views. *The Wall Street Journal* (July 14, 1992).

[Google Scholar](#) 

Citing Literature



[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

[Sitemap](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential

