

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

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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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