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Stock characteristics and herding in financial analyst recommendations

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Pages 317-331 | Published online: 21 Dec 2010

Cite this article <https://doi.org/10.1080/09603107.2010.528367>

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Abstract

Most studies have examined the impact of analyst recommendations on stock prices. This study examines the impact of analyst recommendations on stock prices. We find that analyst recommendations have a significant impact on stock prices. The impact is more pronounced for firms with high analyst coverage. We also find that analyst recommendations have a significant impact on stock prices. The impact is more pronounced for firms with high analyst coverage.

Whether the impact of analyst recommendations on stock prices is positive or negative depends on the characteristics of the firms. For example, firms with high analyst coverage are more likely to have a positive impact of analyst recommendations on stock prices. This may be due to the fact that these firms are more likely to be followed by analysts, and analysts are more likely to issue recommendations for these firms.

with future firms. Thus, in this study, we examine the impact of analyst recommendations on stock prices. We find that analyst recommendations have a significant impact on stock prices. The impact is more pronounced for firms with high analyst coverage.

of these firms. While the impact of analyst recommendations on stock prices is positive for firms with high analyst coverage, it is negative for firms with low analyst coverage. This may be due to the fact that these firms are more likely to be followed by analysts, and analysts are more likely to issue recommendations for these firms.

herding' and fundamentals and in part by other reasons. This may dampen the impact of future

returns on herding. It has also been observed that herding exists in the market regardless of bull market or bear market. No significant inferiority is reported in analyst performance with herding when compared to the performance without herding.

Notes

¹ See Keynes ([1936](#), p. 156).

² This study uses the software 'Research Wizard' provided by Zacks Investment Research to obtain the recommendation data. The top three brokers in the sample are the Bank of America, with a total of 470 observations, followed by A. G. Edwards (461) and J. P. Morgan (423). To avoid legal conflict with individual brokerage houses, Zacks does not permit researchers to buy the detailed database unless they have the approval of all brokerage houses.

³ Revisions from or to a '6' are, however, excluded from the sample.

⁴ Refer to Appendix for the details of the calculation process.

⁵ The study uses the software 'Research Wizard' provided by Zacks Investment Research to obtain the recommendation data. The top three brokers in the sample are the Bank of America, with a total of 470 observations, followed by A. G. Edwards (461) and J. P. Morgan (423). To avoid legal conflict with individual brokerage houses, Zacks does not permit researchers to buy the detailed database unless they have the approval of all brokerage houses.

⁶ If an analyst's recommendation is 'buy' (2) or 'strong buy' (1), the stock will be categorized as 'No herding'. If an analyst's recommendation is 'hold' (3) or 'sell' (4), the stock will be categorized as 'herding'. If an analyst's recommendation is 'strong sell' (5), the stock will be categorized as 'No herding'. If an analyst's recommendation is 'buy' (2) or 'strong buy' (1), the stock will be categorized as 'No herding'. If an analyst's recommendation is 'hold' (3) or 'sell' (4), the stock will be categorized as 'herding'. If an analyst's recommendation is 'strong sell' (5), the stock will be categorized as 'No herding'.

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