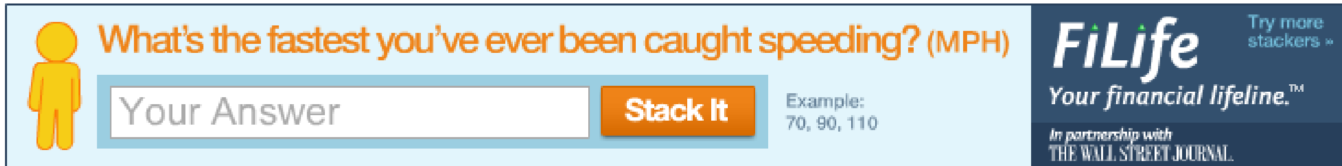

THE WALL STREET JOURNAL.
WSJ.com

MAY 26, 2009, 12:24 PM ET

Markets Often Shrug at Analysts' Calls

Even the best analyst on Wall Street may not influence share prices all that often.

A recent study of analyst recommendation changes showed that about 10% of changes had a significant effect on share prices, and that one-quarter of analysts never made an influential recommendation change.

"An influential recommendation would be [defined as] one where the stock price moves enough that you could discern between the movement of the stock and the usual bouncing up and down" that happens because of daily volatility, says Rene Stulz, a professor at Ohio State University and one of two researchers involved in the study. By that yardstick, he says, "very few recommendations are influential — [meaning] that an investor could attribute share price movement to an analyst recommendation, after accounting for noise."

Stulz and his research partner, Roger Loh, assistant professor at Singapore Management University's Lee Kong Chian School of Business, examined a set of ratings changes issued from 1993 to 2006, and stripped out the effect of "confounding news" from their sample — that is, they removed ratings revisions that occurred on days when something newsworthy happened to the company that could move share prices.

Stulz says there is room for research on why certain ratings revisions are influential and others are not, and that chance may play a role. "Some days, investors may be willing to listen" to analysts, he says. "A week before, when someone said exactly the same thing, nobody perhaps paid any attention," he says. "It's a puzzle."

Either way, companies tend to fare better over the long run when they do have analyst coverage, according to another study.

Raghavendra Rau, associate professor of finance at Purdue University, together with Ajay Khorana of the Georgia Institute of Technology and Simona Mola of Arizona State University, found that a company losing coverage completely is more likely to have a weak share price and problems in its operations than similar performers that have coverage. And companies without coverage are more likely to be delisted from a stock exchange, again compared to like others. The researchers controlled for analysts' tendency to drop coverage of struggling companies.

"If you have no outside coverage," Rau says, "the outside public, the people who are buying and selling shares, are less likely to know true information about the firm, and are at a big disadvantage against insiders." That, he says, leads to investors having "less of a willingness to buy the company."

For more on sell-side analysts, go to WSJ's Best on the Street report.

Copyright 2008 Dow Jones & Company, Inc. All Rights Reserved
This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com