

Analyst recommendations and quotes

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Financial analysts not only communicate with relevant investor groups directly, but also indirectly through the business media. Analyst recommendations and quotes in the media have risen sharply over the past few years. Yet, the questions of what caused this increase and which criteria are applied for choosing analyst recommendations remain unclear. **Media Tenor** had already studied the latter point with a survey among journalists in 2003; this new analysis now complements the overall picture by asking financial analysts about their opinion on decisive selection criteria for analyst recommendations. Moreover, it addresses the scale of analyst interviews as well as possible motives for cooperation.

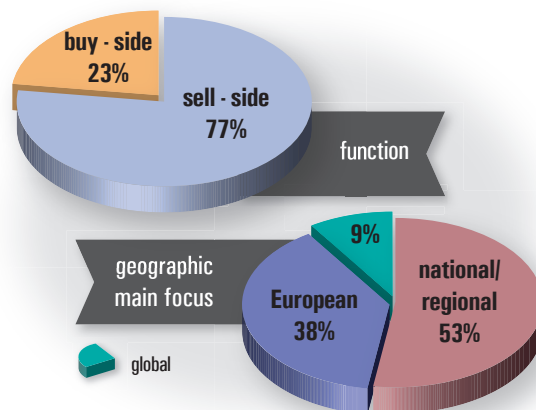
The standardized survey was conducted from March to April 2004. It was actively supported by the German Association for Financial Analysis and Asset Management (DVFA) and the German Investor Relations Circle (DIRK). The target and sample group were comprised of equity financial analysts who analyze companies that are listed on the German stock market. We exercised particular attention to evenly considering analysts of different branches and institutes, so that the analysts contacted correspond to a representative cross-section. Of the 316 financial analysts contacted, 101 sent back valid questionnaires. This resulted in a comparatively good response rate of 31.96 percent.

77 percent of the responding analysts were sell-side analysts, only 23 percent buy-side analysts. This can be explained by the fact that the latter mainly give their research to the portfolio and fund managers within their own house, and would therefore be clearly underrepresented in the sources of data that were used for selecting the sample group. Comparable studies, such as that of Wichels (2001) on the pattern of capital market communication with financial analysts, exhibit a similar relation between sell-side and buy-side analysts. As to the geographical focus of the employer, national/regional institutions are the majority with 53 percent in the sample, European concerns are represented with 38 percent and global institutions with 9 percent.

When asked about who initiates press interviews, the financial analysts said that this is almost entirely done by business journalists; thus,

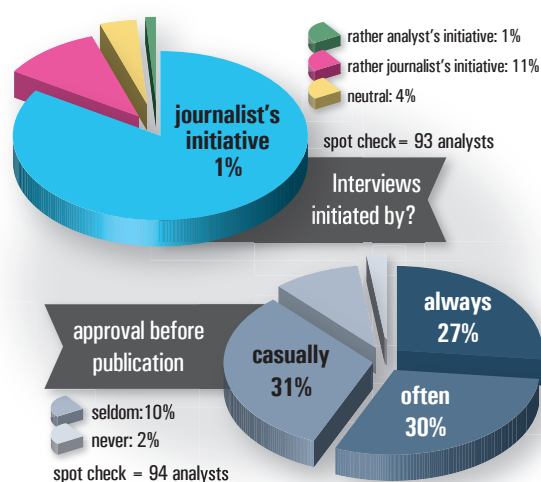
the communicative relationship appears to be rather one-sided. Only a low number of analysts consider the initiative to be with the analysts (1 percent) or balanced/neutral (4 percent). Further-

1 Position, professional experience of the responding analysts



more, it seems to be common practice to ask analysts for a final authorization before publishing an interview. 93 percent of the financial analysts responded that they had given interviews to business journalists in the previous 12 months. Of those, a surprising 58 percent gave 11 or more interviews, and 19 percent of financial analysts gave 7 to 10 interviews. These were most frequent among sell-side analysts and analysts of national/regional banks. The majority is therefore in contact with

2 Initiative for interviews and authorization before publication



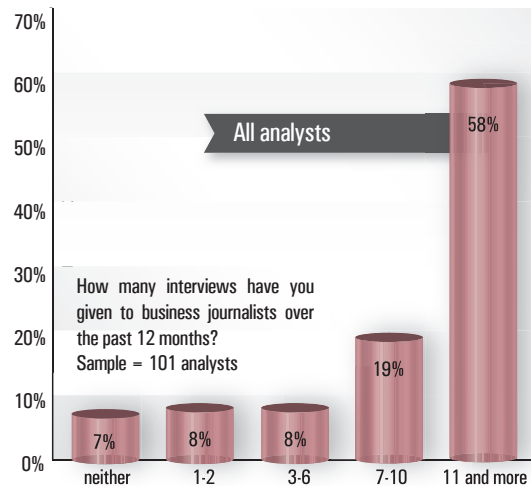
in the business press

the press, often even to a relatively strong extent. Considering the amount of time financial analysts spend on preparing and conducting interviews and press meetings, it becomes obvious that communication with business journalists now makes up a significant part of their routine workload.

In order to find out whether or not analysts would be willing to be even more present in the media, we asked them about their reasons for cooperating with business journalists. It turned out that media presence is particularly desirable, because it strongly increases their familiarity among institutional investors, companies and private investors and enhances their reputation. This hardly comes as a surprise, since a boost in reputation and familiarity entails improved business prospects with relevant clients. The possibility of attaining a competitive edge vis-à-vis other analysts, of improving access to companies or boosting one's own career was considered to be of medium importance for cooperating with the press, as was "launching one's own opinion". At first glance, the latter answer that was given with a relatively high standard deviation may be surprising. But it may be due to the fact that it is a socially undesirable response. The same possibly applies to the motives "increase of familiarity in private circles" and "personal reasons", which were classified as relatively unimportant. The motivation to create share price effects that would benefit one's own customers should at least be controversial. Business journalists generally have to make a selection among a multitude of different investment advice. It can be assumed that financial analysts, as authors of those recommendations, would soon figure out the journalists' selection criteria. This is why the study also addressed the importance

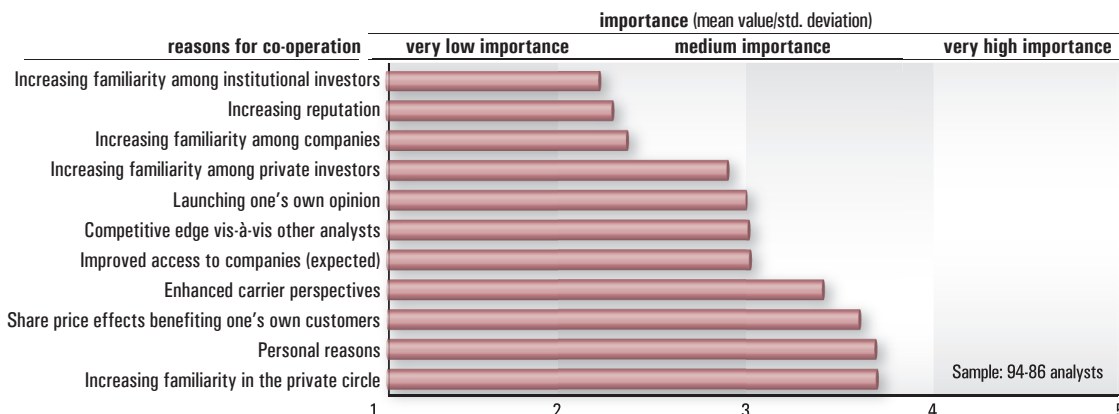
of particular selection criteria for analyst recommendations from the point of view of the analysts themselves. It turned out that special news on a

3 Number of interviews with business journalists



company was considered to be the most important reason for choosing an analyst recommendation. This includes merger announcements, the introduction of new products or the publication of new company figures, for example in the context of a strongly mediated press or analyst conference or general meeting. From the analysts' point of view, a pronounced public interest in a company also plays an important role in choosing analyst advice. It is therefore conceivable that attractive products, which are accessible to the readership, or even charismatic managers can raise public

4 What is the importance of the following reasons for cooperating with business journalists? (F10)



interest in a company and consequently increase the number of analyst recommendations on that company in the business press. The third most important selection criteria mentioned is “preference of the journalist”.



Personal contacts or possibilities of access to certain analysts (and their institutes) may shape the journalist’s preference. From a cost-benefit perspective, this may be a pragmatic approach for the journalist; yet, for the publication’s readership it is not nearly as satisfying a solution.

Another important selection criterion seems to be the reputation of the publishing (investment) bank. Compared to this, the reputation of the publishing analyst is viewed as being less significant.

According to the financial analysts, previous developments of the company’s stocks as well as the dynamics of the industry sector in question are of medium to low importance. This may be explained by the fact that particularly dynamic branches, such as bio- or nanotechnology, are often more complex and therefore require more detailed explanations. The extent to which a previous analyst recommendation has been noted by investors is attributed a surprisingly low importance as a selection criterion. In theory, one would

think that recommendations, which have had a strong effect on the market after their first publication, would raise increased attention within the business press, leading to subsequent coverage. Still, practical reasons would speak against this, such as the comparatively labor-intensive characterization of investor interests or also a potentially differentiated interest among the readers.

Summary

Summing up, we can say that a large majority of analysts conduct interviews with business journalists; in most cases, they do this quite frequently. This suggests that the communicative relationship with journalists is an important, time-consuming part of the analyst’s job. Journalists mostly take the initiative for an interview. Thus, the reasons for the general increase of analyst quotes in the business press presumably lies with the media. From the analysts’ point of view, a cooperative behavior towards business journalists is advantageous, because they hope to boost their reputation and familiarity among institutional and private investors as well as companies.

Aside from special company news and a strong public interest in the recommended company, the personal preference of the journalist is considered to be an important reason for selecting analyst recommendations. This largely confirms the Media Tenor (2003) survey among journalists. But from the readership’s perspective, this is rather undesirable, since journalistic preference – at least according to the analysts – is even more important as a selection criterion than the reputation of the recommending bank or analyst.

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5 What do you think is the reason for an analyst recommendation to receive special attention in the business press?

