

Market demand for conservative analysts

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Abstract

Sell-side analysts, on balance, have incentives to emphasize good company news and downplay the bad, resulting in inefficient forecasts. We conjecture that this behavior generates a demand for forecasts from conservative analysts who unwind this pattern, at least in part, resulting in more efficient forecasts. To investigate, we introduce a measure of analyst conservatism and assess the market reaction to analysts' forecast revisions conditioned on their past levels of conservatism. We find a stronger market reaction to forecast revisions by more conservative analysts, and that this result is heightened for companies with greater institutional investor following.

Keywords: Analysts, Conservatism, Earnings forecasts, Market reaction