Do Sell-Side Analysts Say “Buy” While Whispering “Sell”?  
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Abstract
- Sell-side equity analysts strategically disclose different information to the public and buy-side mutual fund managers to whom they are connected.
- Analysts’ public recommendations tell the public to “buy” but they are whispering “sell” to their connected fund managers.
- Using mutual fund managers’ votes for sell-side analysts, I find that managers are more likely to vote for the analysts who exhibit more say buy/whisper sell behavior with these managers.
- Fund managers benefit from holding/trading stocks linked to analysts they voted for.
- Analysts’ differential information disclosure results in a form of information asymmetry, which incurs a significant cost on uninformed investors.

Empirical Strategy
- Managers’ votes for analysts as their evaluations of analysts.
- Analysts tell private information to managers in exchange for voting support.
- If private information is involved: say buy/whisper sell percentage measures the extent of private information a positive relationship between say buy/whisper sell percentage and voting.
- If private information is not involved: say buy/whisper sell percentage measures the extent of disagreement a negative relationship between say buy/whisper sell percentage and voting.

Background & Data
Analysts’ dual role of information disclosure
- Public disclosure (stock recommendation & earnings forecast)
- Private communication with clients (mutual fund managers)

How to disclose information?
- The tradeoff between public information and private information:
  - more public information → more informed price → less value of private information for trading
- Tow insights from theory (Garcia and Sangiorgi 2011):
  1. disclose relatively precise information to a small group of investors (fund managers)
  2. disclose relatively noisy information to a large group of investors (public audience)

Data Source:
- Manager voting for analysts: proprietary data (2011-2016)
- Manager trading: CSMAR
- Analyst public report: CSMAR

Measure Construction

Analytical Diagram:
- Say buy/whisper sell (Stock B): the analyst says “buy” but the manager sells.
- Say buy/whisper sell percentage: the percentage of the manager’s sold stocks that are publicly recommended by the analyst as positive.
- Use say buy/whisper sell percentage to proxy for the extent of private information disclosure.

Results
1) Managers are more likely to vote for analysts who provide more private information as measured by high say buy/whisper sell percentage.
2) Such relationship is strengthened:
   1) The manager has low investment skill in the analyst’s industry.
   2) The manager and the analyst have a pre-existing working relationship.
   3) Analysts’ concern for public reputation is low.
3) Fund managers benefit from holding/trading stocks linked to analysts they voted for.
4) Among analysts’ positive recommendations, the stocks bought by the voting managers outperform the stocks sold by these managers.

Conclusion
- Analysts differentiate their information disclosure toward different audiences.

Implications
- Analysts’ public recommendation performances are rather noisy measures for analysts’ skills.
- Law regulations targeting analysts’ biased recommendations may not fully eliminate analysts’ differentiating behaviors.

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