Do Sell-Side Analysts Say "Buy" While Whispering "Sell"?

Yushui Shi
University of California, Irvine

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.

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?

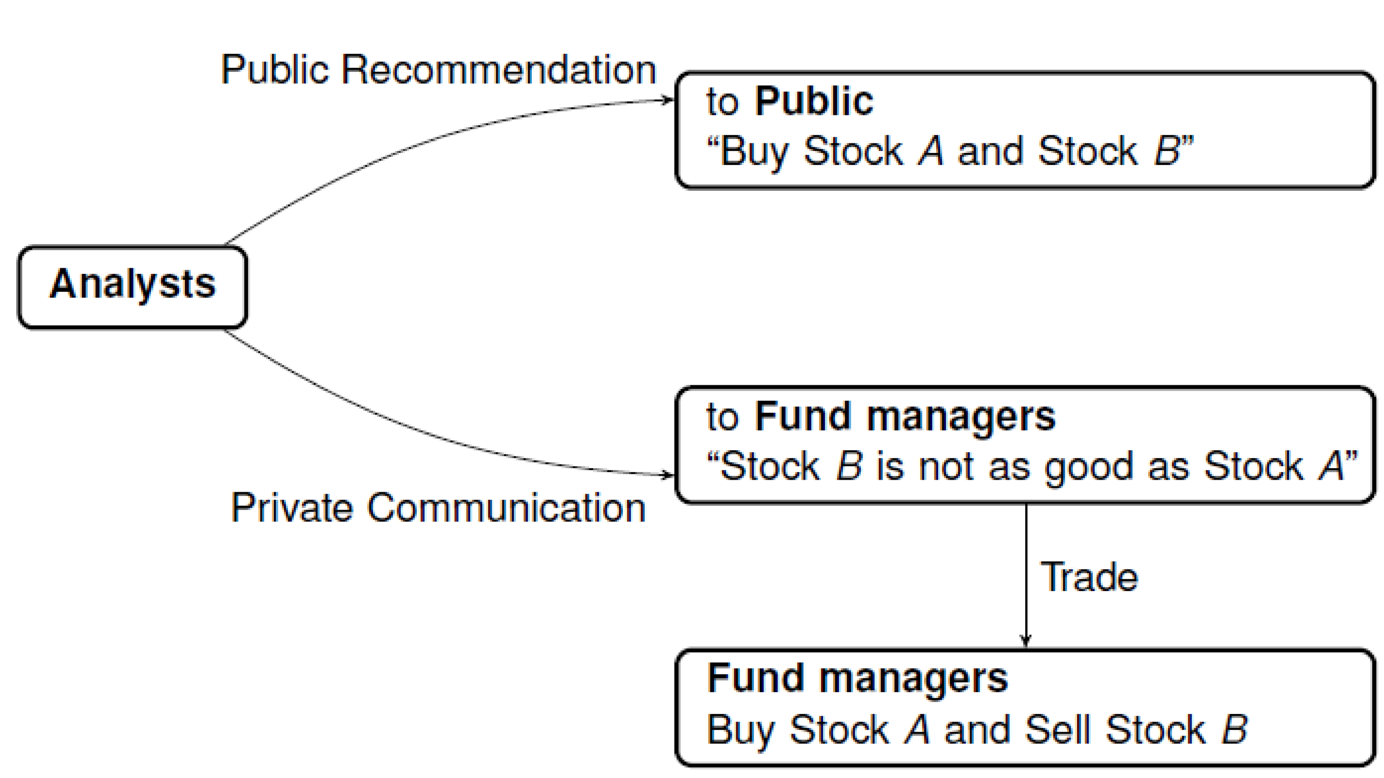
- The tradeoff between public information and private information:

  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



- 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.

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

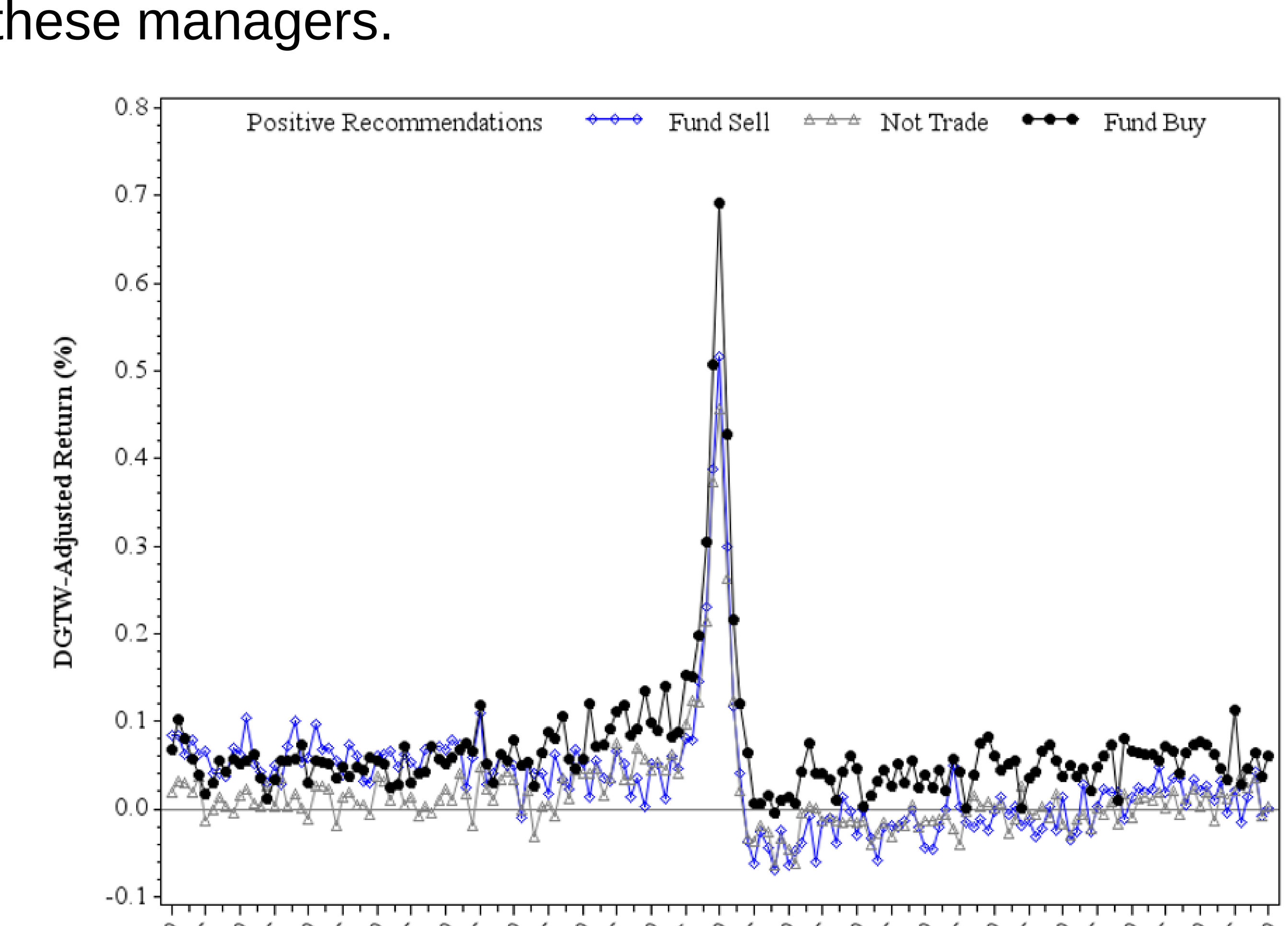
Results

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.

Contact

Yushui Shi
University of California, Irvine
Email: yushuis@uci.edu