FACULTÉ DE DROIT, D'ÉCONOMIE ET DE FINANCE

Date of the event:

On Thursday 20th January 2011
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before January 17th, 2011
- At the following address : lsf-events@uni.lu

Information:

Ms Caroline Herfroy
Tel : +352 46 66 44 6335

http://www.lsf.lu/eng/Research/Seminars-and-Workshops

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FACULTÉ DE DROIT, D'ÉCONOMIE ET DE FINANCE

LUXEMBOURG SCHOOL OF FINANCE

The LSF is pleased to invite you to the following lunch seminar:

What Drives the Value of Analysts' Recommendations: Earnings Estimates or Discount Rate Estimates?

By Prof. Roni Michaely
Cornell University, USA

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LSF Seminar

What Drives the Value of Analysts' Recommendations: Earnings Estimates or Discount Rate Estimates?

By Roni Michaely

An analyst changes his recommendation of a stock to indicate to investors that his valuation of the stock differs from the market's valuation. Explicitly or implicitly, the difference in valuation ultimately arises from disagreement about earnings estimates and/or discount rate estimates. We argue that recommendation changes that are based on changes in earnings estimates are characterized by harder information, greater verifiability, and shorter forecast horizons than recommendation changes that are based on discount rate estimates, so they are less subject to analysts' cognitive and incentive biases. Therefore, earnings-based recommendation changes should be more informative to investors than discount rate-based recommendation changes. We find that both the initial price reaction and the drift after recommendation changes are 50%-200% bigger for earnings-based recommendation changes than for discount rate-based recommendation changes. Trading on earnings-based recommendation changes earns average risk-adjusted returns of over 3% per month over the period 1994-2007.

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