

Project Description

General

- Research on **value and dynamics of information dissemination** of financial analysts with respect to the construction of earnings forecasts
- Special focus on:
 - Interaction: how individual decision processes influence consensus
 - Aggregation: how individual decision processes aggregate into accurate consensus
 - Information value for and reaction of investor



Objectives



- Measure **level of inefficient forecasting** in consensus forecast and investigate its **impact on stock prices**
- Determine weighting scheme to **construct optimal combined consensus forecast**
- Compare **quality of aggregate forecasts** in case of analysts in isolation and in case of presence of peer feedback mechanism

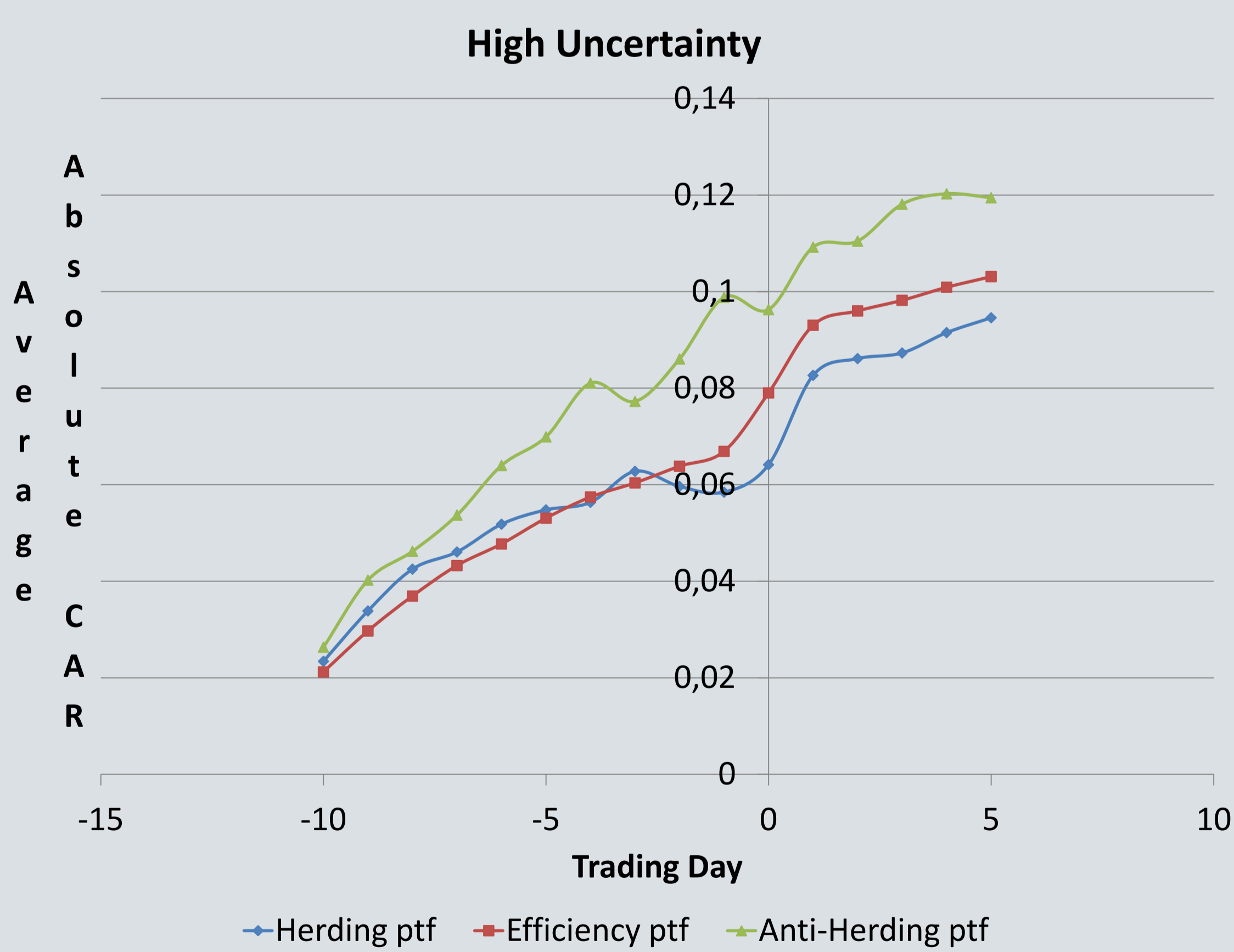
Paper 1: Does inefficient earnings forecasting lead to abnormally stronger market reactions?

Research Questions

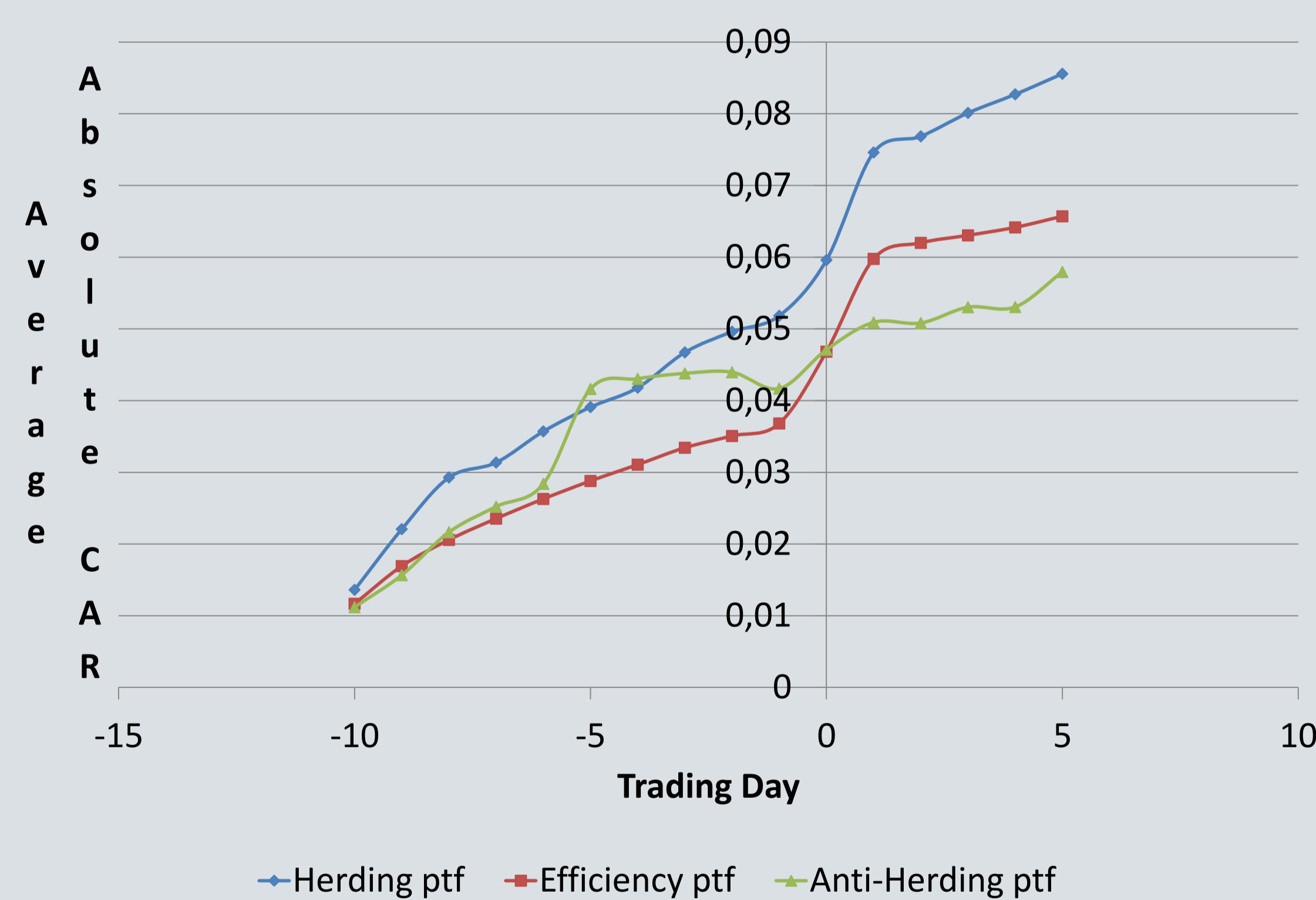
- Does inefficient forecasting lead to abnormally stronger price reactions?
- Do herding and anti-herding lead to different price reactions in periods of high and low uncertainty?
- Can we trade on the 'inefficient forecasting anomaly'?

Setting

- **Relevance of analyst forecasts** in financial markets
- HOWEVER: Analyst incentives <> Investor incentives → **biased forecasting**
- Over- / Underweighting of information signals (**Herding / Anti-Herding**)
- Flawed expectations for investor → strong **impact on market price**



Low Uncertainty



Methodology

- Measure **level of herding / anti-herding** and compare market impact with efficient portfolio
- Compute market reactions in periods of **high / low uncertainty**
- Construct **options** to trade on increased volatility

Results

- Inefficient earnings forecasting leads to **stronger impact** on the price of the stock **compared to efficient earnings forecasting**
- **Anti-herding** leads to stronger market reactions compared to efficiently forecasted consensus in times of **high uncertainty**, whereas **herding** leads to **stronger market reactions** in times of **low uncertainty**

