THE PERFORMANCE OF UNDERWRITER ANALYST RECOMMENDATIONS: A SECOND LOOK

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ABSTRACT

We examine whether affiliated financial analysts’ buy recommendations after IPOs earn lower returns than those of unaffiliated analysts during the 1994-2001 time period, when analysts working at investment banks are alleged to have been influenced by conflicts of interest. We extend the work of Michaely and Womack (1999), who studied 1990-1991 IPOs. In contrast to their results, we do not see affiliated analyst recommendations earning lower abnormal buy-and-hold returns than unaffiliated at intervals of three, six or twelve months after the recommendations. Rather, our results show that the results vary considerably from year to year, without evident time trend. We find that while affiliated recommendations do not discriminate between good and bad IPO stocks, unaffiliated recommendations arrive too late to provide useful trading advice.

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