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Comprehensibility and comprehensiveness of financial analysts' reports

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ABSTRACT

Financial analysts and their texts play a key role in the financial community. Despite their importance, both the analysts as writers and the texts themselves are widely under-researched, as a review of the literature in the field reveals. This is the gap that our large research project on financial analysts' written communication aims to close. Based on a context-annotated corpus of roughly 1500 financial analysts' company reviews (in German, English, and Japanese), we investigate the cultural, organizational, and individual variety of the texts' communicative potential for investors. The final goal of the entire research project is to identify critical situations and situative good practices of cross-disciplinary communication in the financial community.

In the present paper, we focus on one specific genre, a small qualitative sample, a product-only approach, and on one specific research question from the financial communication project: why do equity analysts' company updates for investors fail to reach their communicative potential? We start by systematically contextualizing the genre in the light of the research question (Section 1). Based on a qualitative English sub-corpus (Section 2), we then explain how we used pragmatic text analysis to investigate the texts' comprehensibility and comprehensiveness in cross-disciplinary communication (Section 3). The results suggest that these texts bear the risk of partial communicative failure (Section 4) and what actions can improve their communicative potential (Section 5).

1. Financial analysts as professional writers

Around the globe, financial analysts publish their reports, assessments, and forecasts about the capital markets daily. These publications are directed toward helping investors understand the fast-changing markets in order to make sound investment decisions. All stakeholders in the economy, individuals and social groups alike, are affected by such decisions: directly, with individual investments, or indirectly, with the allocations of pension funds, for example. A broad field of studies has investigated financial analysts' texts and their role in capital markets, but until now research has focused mainly on how analysts' estimates are generated, how these estimates interact with the markets, what their implications are for other market participants (cf. Jorns, 2009, 3), and how much additional return can be achieved with analysts' forecast data (cf. Krotter, 2009, 135). Other examinations aim at summarizing the myriads of details of analysts' concepts and terms (e.g., Ramesh, 2001) or investigate the role that argumentation plays in finance (cf. Palmieri & Palmieri, 2012, 100–101). The fact that every financial analyst is a professional writer has been widely ignored so far. It has been observed that financial analysts' texts are difficult to understand (cf. Hieke, 2000, 203), and that investors need very profound knowledge to assess analysts' recommendations (cf. Ritz-Appert, 2002, 82). There are individual studies investigating particular linguistic phenomena in analysts' texts (e.g., Verronneau, 2012) but no encompassing research as yet on the cultural, organizational, and individual variety of the texts' communicative potential for investors. This article contributes to closing this research gap.

In Section 1, we describe equity analysts' work and writing situations within the financial community. The decisive characteristics of the qualitative corpus are discussed in Section 2. The reasons for applying pragmatic text analysis as a method to explore the interaction of writing activities and environments, as well as the parameters used are laid out in Section 3. In Section 4, we explain why the analyzed texts are hard to understand for some of their target readers. Section 5 concludes the article by outlining which organizational measures can improve the communicative potential of equity analysts' company updates.

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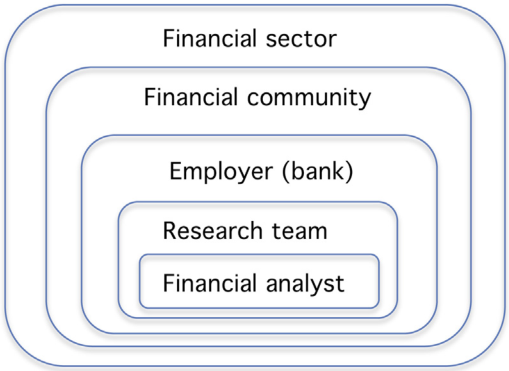

Figure 1. Financial analysts in context.
Adapted from Jakobs & Perrin, 2013, 19.

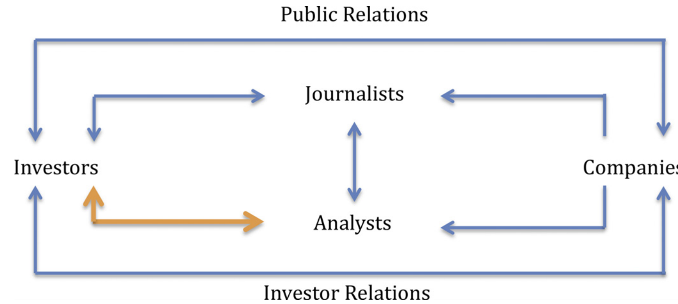

Figure 2. Flow of information in the financial community (Whitehouse-Furrer & Perrin, 2014).

Financial analysts are professionals who collect and prepare economic data in the areas of shares, bonds, funds, and sustainable investments, who make short and long-term estimates and forecasts from a micro and macro perspective, and who publish their recommendations in and for the financial community. They are professional writers, working in a complex field of competing colleagues, guidelines, and interests of companies, investors, and journalists, whilst having to align with legal requirements as well as the guidelines of their employers (often a bank or a broker). Referring to Jakobs' nested environments of writing (Jakobs & Perrin, 2013, 19), the following graph situates financial analysts within the financial sector (Figure 1).

1.1. *Equity analysts*

Financial analysts can be divided into various groups according to the different areas they cover in their work: markets, technical trends, funds, bonds, sustainable investments, equity, etc. Given the impact that equity analyses have on the markets, the focus in the following will be on equity analysts.

As intermediaries between the company and the investor, equity analysts play a central role in capital markets (cf. Schlienkamp, 2002, 169). According to a survey carried out with journalists, communication managers, financial analysts, and scientists, it has been acknowledged that the analysts and their recommendations have the strongest impact on the share prices (cf. Rolke and Wolff, 2000a, 237) and sometimes even cause turbulence on the stock markets (cf. Schlienkamp, 2002, 168).

Equity analysts produce a variety of text genres. The main formats are: (a) highly focused short-term updates of two pages which inform investors about current market events or about a company; (b) frequently and regularly published mid-size company updates of four pages which provide analysts' more elaborate assessments; (c) company analyses of eight pages or more which offer various background information; and (d) sector studies which give a detailed overview about an industry and its companies.

The analysts are responsible for the contents of their texts, but additional agents are usually involved. The document cycles through various stages of value generation (Jakobs, 2005, 25) until the text is finally published. All texts in the corpus analyzed for this paper (see below, Section 2) underwent such a procedure of document cycling: the equity analyst wrote the text, a team member (most often the superior) gave feedback on it, and the analyst adjusted the text accordingly. In a subsequent step, the text was copy-edited by an editorial team within the organization and made compliant with the guidelines of the employer, in this case the bank. As part of the bank's communication channel, analysts' texts are institutional products. They therefore transport and shape information, but also reflect the values of the bank (cf. Jakobs, 2005, 29).

Most often, equity analysts work in a research team, usually consisting of sell-side and buy-side analysts. It is the team's job to not only analyze listed companies and make recommendations for investors, but also to prepare investment decisions in the case of initial public offerings (IPO) or capital increases. In any case, research texts should provide a good basis for investors' decisions.

Many equity analysts are employed by brokers or banks. In a bank, they work with traders, who offer securities to portfolio managers and institutional investors, as well as with client advisors, who recommend investment solutions to the bank's customers. So-called firewalls are in place to prevent equity analysts from exchanging information with certain organizational units of the bank, for example the credit department, which guarantees the analysts' independence.

However, many banks have reduced their research teams to a bare minimum in order to cut costs. On the one hand, this leaves fewer analysts with more work; on the other, it means that the same text is frequently used for several groups of investors with different background knowledge. Thus a genre originally intended for a particular audience might be indiscriminately distributed to multiple addressees. Retail investors in particular experience difficulties in understanding these texts (cf. Ritz-Appert, 2002, 82), since comprehending the analysts' recommendations and assessing a company accurately require profound knowledge of the financial markets.

1.2. *Financial community*

Investors, financial analysts (including rating agencies), journalists, and companies are the participants in the financial community. They influence each other and depend on each other at the same time (Figure 2).

Investors are individuals, companies, institutions, or similar entities committing money to investment products with the expectation of financial return. In contrast to a speculator, who is willing to accept a higher level of risk in the hopes of achieving higher-than-average profits, an investor seeks to minimize risk and maximize return. Investors rely on information and forecasts on financial markets and firms that are provided by other participants in the financial community, especially financial analysts. Analysts' judgments are considered to be the most appropriate approximation of market expectations (cf. Jorns, 2009, 2). Sound analysts' reports with processed data can help investors gain a clearer picture of the events on the financial markets. These reports are for information purposes only and are never to be understood as investment instructions.

Companies inform the financial community using different channels, different media, and different genres. Equity analysts play an important role here as well: the companies regularly organize meetings between their management or board and equity analysts.

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