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Abstract

This study investigates the relationship between the quality of investment banks and shareholder wealth in bank mergers. Focusing on a US sample of 415 targets and 1,066 bidders from 1995 to 2010, I find that the quality of financial advisors appears to have a significant impact on shareholder wealth for bidding firms, but not for target firms. The results suggest that bidders experience higher losses when hiring tier-1 advisors. Further analysis shows that this finding holds during 'normal' periods, but not during crisis periods, where I find a significant positive relationship between tier-1 advisors and bidder announcement returns, suggesting that more prestigious financial advisors can offer superior advising services.

JEL classification: G21, G34

Keywords: Investment banks, bank mergers, shareholder wealth, financial crisis

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