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Judgment effects of familiarity with an analyst's name

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A B S T R A C T

We conduct an experiment with MBA students where we manipulate whether participants are exposed to an analyst's name in Stage 1, and whether they are given a cue in Stage 2 about the particular analyst's prior performance as an All-star analyst. We find that in the absence of a favorable performance cue about the analyst, mere exposure to the analyst's name enhances perceived analyst credibility, which in turn influences the investors' earnings estimates. This suggests a benefit to analysts in terms of building credibility merely through media exposure that cannot be explained by performance. In fact, a diagnostic cue such as the analyst's high prior performance no longer matters to investors once they have prior exposure to the analyst's name. However, this enhancement of an analyst's credibility through investors' prior exposure to his/her name is reversed when the analyst's forecast turns out to be inaccurate.

Introduction

In this study, we examine whether investors' perception on the analyst's credibility and their earnings estimates made in reaction to the analyst's forecast are influenced by the joint effect of prior exposure to the analyst's name and their awareness of the analyst's prior performance. Financial analysts and their reports often receive coverage in the media. Such media coverage can increase the salience and, thus, familiarity to investors of those analysts. In addition, media coverage of an analyst sometimes includes the prior performance of the analyst (such as All-Star status) but sometimes not (see Appendix A for examples of such media coverage).[1] Thus, an analyst's forecast received by investors can vary in terms of two analyst attributes: whether the analyst's name has received prior exposure by the investors, and whether the analyst's prior performance is made known to the investor.

[1] For instance, some data sources/media (e.g. Starmine, a division of Thomson Reuters providing equity research service; Yahoo Finance!; Institutional Investor; Wall Street Transcript) always include the analysts' prior forecast accuracy ratings with their names, but other media sources do not always do so (e.g. PR Newswire reports on earnings conference calls generally do not report other information about the analyst other than the brokerage firm name). As evidence of this latter point, we randomly select 20 highly-exposed analysts whose media mention is higher than the mean mention documented in Bonner, Hugon, and Walther (2007), half of whom hold All-Star or All-American status and the other half have no such award. We collect the media mentions, other than those from Institutional Investor, Wall Street Transcript, and earnings conference calls (484 in total without duplicates) for these 20 analysts in the year 2010 from the FACTIVA database and code the information about the analyst accompanying his/her name. There is only one instance where there is mention of the award status (or related performance-related information) of the analyst.

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The joint effect of these two analyst attributes on investors' judgments has not been investigated, but is important for a few reasons. Familiarity through mere exposure to an analyst's name *per se* (i.e., without any performance measures) is an irrelevant cue, and psychology research suggests that this can positively affect investors' judgments (Zajonc, 1968). Following psychology literature (Zajonc, 1968), we use the term "mere exposure effect" to refer to the enhancement of investors' favorability (in terms of reliance on the analyst's forecast) towards an analyst through mere exposure of the individual to the analyst's name. To the extent this mere exposure effect occurs in an investment setting, it has implications on how analysts can enhance their credibility with and impact on investors, even without any change in their forecasting performance. On the other hand, an analyst's performance status (e.g., All-star status) is a relevant cue that is positively associated with forecast accuracy (Fang & Yasuda, 2009; Stickel, 1992), and should be relied upon. However, these analyst attributes (prior exposure and performance status) are sometimes present in isolation and sometimes at the same time, and theory suggests that they have substitutive effects (Dhami & Harries, 2001; Gigerenzer & Gaissmaier, 2011; Gigerenzer & Goldstein, 1996). For instance, while investors' influence by an irrelevant cue such as their familiarity with the analyst's name may be an area of concern, the presence of an analyst's performance status (a relevant cue juxtaposed with the analyst's name) may actually alleviate this concern as it can dominate this mere exposure effect. However, the reverse is also possibly true. That is, in the presence of prior exposure to the analyst's name, performance cue may no longer matter, which is an area of concern.

Recent archival research provides some evidence of a mere exposure effect, and indicates that the celebrity status of analysts (measured by the quantity of media coverage analysts receive in the major media sources) positively affects investors' reactions to forecast revisions (Bonner et al., 2007). However, they also find that media coverage is positively associated with *ex ante* forecast performance such as All-Star status,[2] and thus, it is possible that media coverage is proxying for analyst performance. As Table 1 shows, All-American/All-Star analysts are about three/two times more likely to be in the high versus low media coverage group (22.60% vs. 6.94%; Pearson chi-square = 978.48, $p < 0.01$/18.42% vs. 9.41%, Pearson chi-square = 341.77, $p < 0.01$).[3] Furthermore, because the analyst's name is sometimes accompanied by his/her prior performance in such media coverage but sometimes not, it is unclear whether the media coverage effect is due to investors' exposure to the analyst's name, his/her prior performance, or an interaction effect between the two. The authors acknowledge that "an alternative explanation of our results is that, consistent with prior work in the area, market participants react more strongly to forecast revisions issued by analysts with superior performance" (Bonner et al., 2007, p. 483).

Table 1
A 2 × 2 frequency table of media coverage and analyst's perceived performance.[a]

Panel A:			
		Performance [*Institutional Investors* All-American Award]	
		No	Yes
Media Coverage	Low	9407 (93.06%)	701 (6.94%)
	High	7760 (77.40%)	2266 (22.60%)
Panel B:			
		Performance [*Wall Street Journal* All-Star Award]	
		No	Yes
Media Coverage	Low	9157 (90.59%)	951 (9.41%)
	High	8179 (81.58%)	1847 (18.42%)

Number in parentheses refers to the percentage of observations within each media coverage group.

[a] This frequency table is based on the sample of Bonner et al. (2007) (20,134 analyst-firm-quarter observations) and shows the number of observations (the percentage of observations within each media coverage group) in each cell. Media coverage of the analyst is classified as low/high using median split. Performance of the analyst is measured by the award status (*Institutional Investors* All-American award, Panel A; *Wall Street Journal* All-Star award, Panel B).We also conduct the chi-square test of independence and find that media coverage is associated with both All-American and All-Star award status (Pearson chi-square = 978.48/341.77, $p < 0.01$ for both award status measures).

We also examine whether the credibility enhancement established by prior exposure persists when the analyst's actual performance disappoints investors. We suggest that while there is a benefit to the analyst from increased media exposure, this benefit is short-lived should the analyst make a forecast error. This finding informs us about a possible negative effect of exposure on the analyst's credibility over multi-period interactions between analysts and investors. This finding is also important to other market participants such as managers, who may also consider exposure as one way to enhance their credibility with investors.

We conduct an experiment to investigate these issues. The key advantage of the experimental approach is that it allows us to manipulate participants' awareness of the prior performance of the analyst. Although it is possible to use archival data to measure both media coverage and analysts' prior performance (e.g., as in Bonner et al., 2007), investors exposed to a high media coverage analyst may or may not be aware of the analyst's prior performance. Therefore, it is difficult to assess whether the stronger reactions to the celebrity analysts' earnings forecast are caused by their prior performance, investors' exposure to the celebrity analysts' names, or both. In addition, using the experimental approach enables us to hold constant other information such as the strength of the analyst's arguments (Hirst, Koonce, & Simko, 1995). Other factors determining the appearance of analyst's name in the media

[2] A recent working paper by Rees, Sharp, and Twedt (2011) using a subset of the media that Bonner et al. (2007) cover (top 5 business press; 86% of Rees et al.'s (2011) sample comes from *Financial Times* and *The Wall Street Journal*) also finds similar results for the positive correlation between All-Star status and media coverage. They find a positive association (regression coefficient of 1.277, odds ratio = 3.586) between media coverage and All-Star status in the logistic regression, suggesting that the odds of being covered by the top business press increase by 258.6 percent with All-Star status.

[3] We appreciate the help of Beverly Walther in providing the analysis included in Table 1.