

EMPLOYMENT OF EVENT STUDY TO ESTIMATE INFORMATIONAL SIGNIFICANCE OF ANALYSTS' RECOMMENDATIONS OF RUSSIAN EMITTERS

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Abstract

This article provides description of the event study analysis and its application for testing of the information value of analyst reports that are issued by brokerage firms on Russian public companies. Event study method allows to evaluate abnormal return that exists due to issuance of new analyst recommendation change in the short-term. Results of the empirical research show that quotes of Russian stocks statistically significantly increase as a result of recommendation upgrade by investment analyst and statistically significantly decrease as a result of recommendation downgrade. Positive (negative) abnormal returns are associated to positive (negative and neutral) recommendations change the day of publication of the recommendation and the day before and after publication although t-statistics is at the maximum level the day of publication. There is no any asymmetry in the effect of recommendation on the stock return or trading volume, following the sign of the recommendation. These results are robust for different data subsets and are consistent as for MICEX stock exchange so for London stock exchange although there is an evidence that LSE investors adopt new information in prices more quickly. Stock prices react more significantly to recommendation revisions if the recommendation change sign coincide with the final recommendation. The difference between models that are used to define “normal” return is minimal and does not influence the results. The largest price reactions to upgrades is observed during the “bull” market while the largest price reactions to downgrades is observed during the “bear” market. At the same time, during the “bull” (“bear”) market analysts tend to issue more favorable (negative) recommendation changes. The reputation of brokerage firm that is defined by Institutional Investor rating does matter while the country of origin of analyst team (“domestic” or “foreign”) does not show any influence on information value of the recommendation.

JEL: G1

Key words: event study, informational significance, recommendations of analysts, stock pricing, stock market, investment banks.

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