B E H A V I O R A L   F I N A N C E

Sell-Side School Ties

August 1, 2010

In the equities market, security analysts are among the most important agents in revealing information to investors. A large part of an analyst's job is to research, produce and disclose reports forecasting companies' prospects, and to make buy-or-sell recommendations. Therefore, it is critical to know how, or from whom, analysts obtain information.

In this paper, we study ties between sell-side analysts and management of public firms, and compare them with the subsequent performance of analysts' recommendations. We use attendance at the same educational institution to identify firms where analysts are more likely to gain direct access to senior managers. One advantage of this approach is that ties are formed long before the information likely being transferred across them, and thus the underlying tie (alumni link) is not directly related to the type of information likely being transmitted years later (company-related information).

Our main goal is to test the hypothesis that analysts gain a comparative information advantage through their social networks; specifically, through educational ties with senior officers and board members of the firms that they cover.

We find that analysts outperform by up to 6.60% per year on their stock recommendations when they have an educational link to the company. Pre-Reg FD, this school-tie return premium was 9.36% per year, while post-Reg FD it is nearly zero. In contrast, in a market that did not change selective disclosure regulation (the U.K.), the school-tie premium is large and significant over the entire sample period.

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