Ties that bind: The value of professional connections to sell-side analysts

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Current version: September 2014

Abstract

Using novel biographical data between 1993 and 2011, we examine professional connections among executives and analysts formed through overlapping historical employment. Analysts with professional connections to coverage firms have better earnings forecast accuracy, provide more informative stock recommendations, and are also more likely to become all-star analysts even after controlling for known alternative channels of management access. Executive movements causing exogenous losses (gains) in professional connections lead to worsened (improved) accuracy and less (more) informative recommendation revisions. Our evidence is robust pre- and post-Regulation FD indicating that superior management access remains important even post-Reg FD.

Keywords: Analyst forecasts, Analyst recommendations, professional networks, management access, Reg FD
JEL classifications: G20, G23

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