

The Performance of Analysts' Stock Recommendations: Evidence from Thailand

PIER Research Workshop

Atta Lakeside Resort Suite

29/6/2023

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Outline

- Introduction and motivation
- Brief literature
- Methodology and data
- Results—price, returns, performance measures, regressions
- Conclusion and discussion

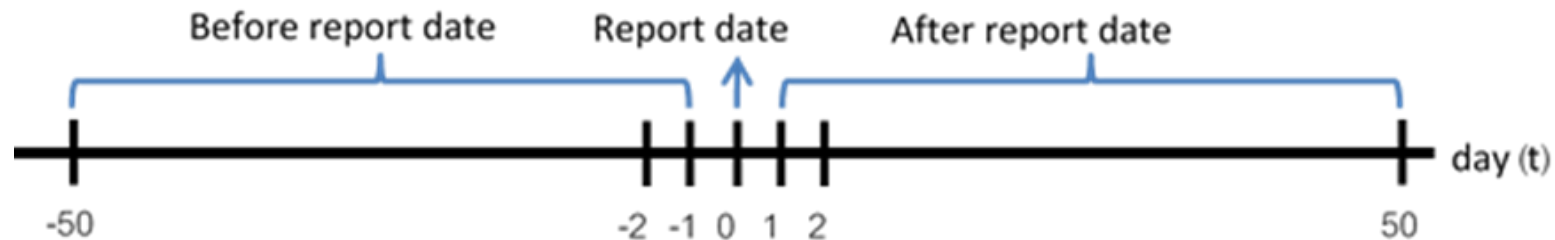
Introduction and motivation

- Retail investors often rely on analysts' recommendations (Baker and Dumont, 2014).
- Can stock recommendations help investors generate abnormal returns in the Thai stock exchange?
- This paper investigates the returns on SET stocks recommended by brokerage firms as “buy” from August 2017 – January 2018
- We find that recommended stocks under-perform the SET index on average.
- We also find that “buy” recommendations tend to follow good performance, rather than vice-versa.

Literature

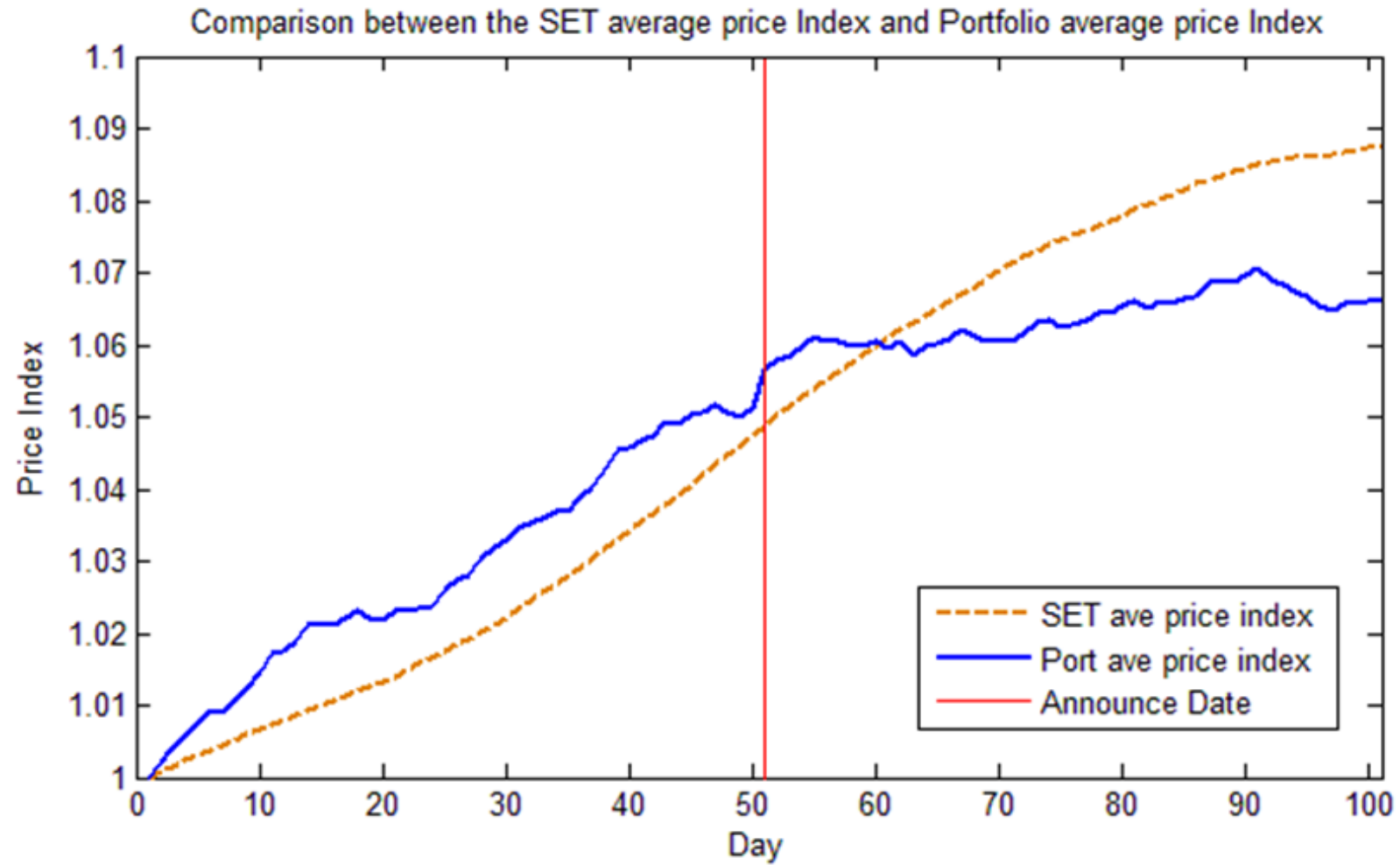
- Performance of fund managers
 - Fama and French (2010): fund managers do not generate sufficient returns to cover costs. However, superior and fund managers do exist.
- Performance of Analysts' recommendations
 - Barber et.al (2001): U.S. yes abnormal returns, only if constantly updating based on consensus recommendation, leading to near zero net return
 - Barber et al (2003): US recommendations do not generate abnormal returns for the market during 2000-2001 (U.S. recession)
 - Lonkani et al (2010): Thailand, abnormal returns for consensus recommendations (from anywhere) and constant updating

Methodology and data

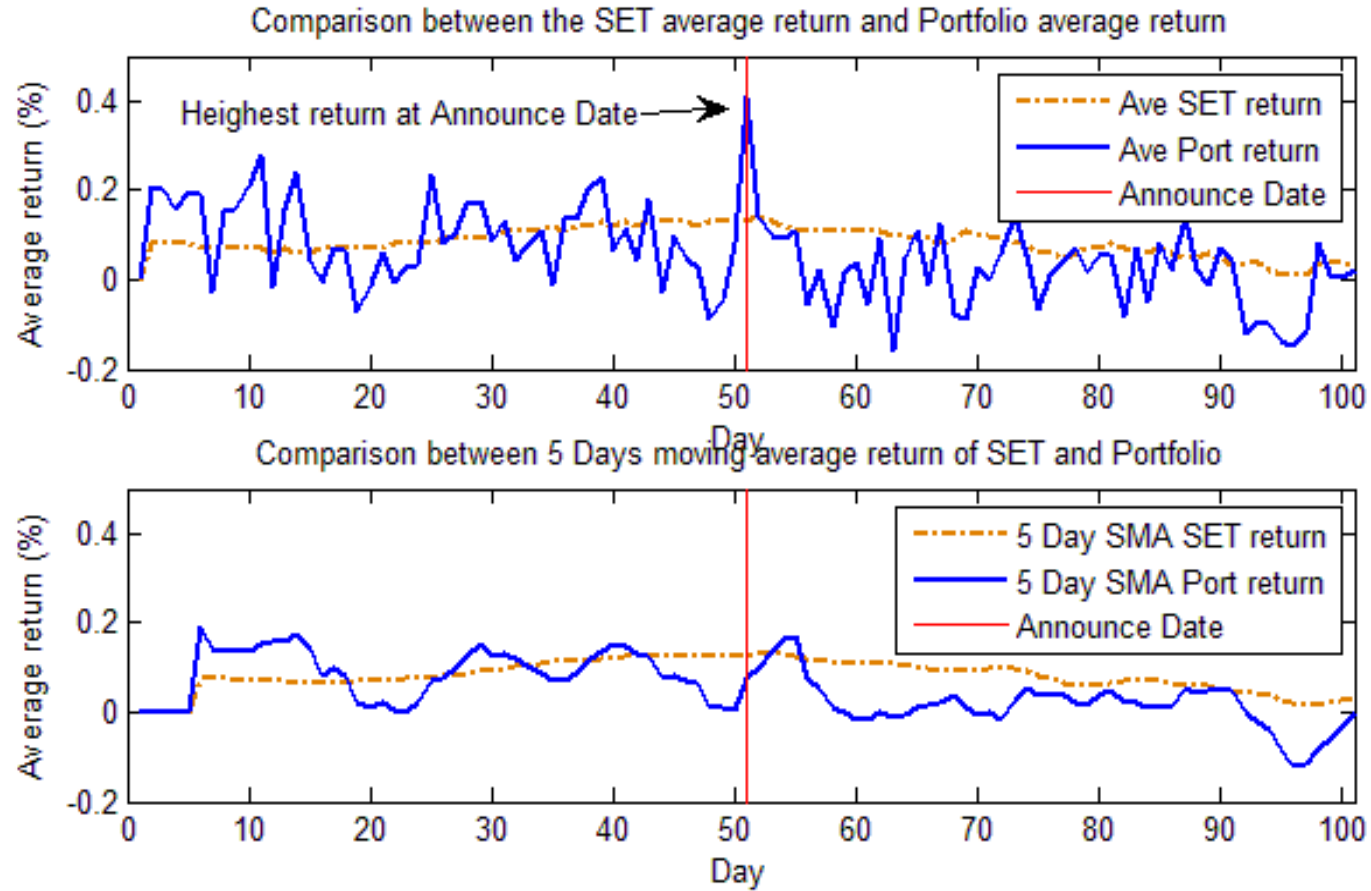


- Event-study
- “Buy” Recommendations gathered from Aug 2017 – Jan 2018 from the investment program efin StockPickUp.
 - Date and stock name recorded
- Stock price for all recommended stocks are gathered for a period of 101 days centered around the recommendation date, t_0 .
- Jensen’s alpha (CAPM), Sharpe Ratio, Treynor ratio to assess portfolio performance
 - Risk-free asset is the 1-year Thailand Bond.
- Time series regressions to assess price and return responses to “buy” recommendations
- Granger causality

Price index



Daily returns



Jensen's alpha

Days after report	α	Std.Error	t-Statistic	β
2	1.1537	2.3342	0.4942	-11.3340
4	-0.1353	0.5255	-0.2575	3.2695
10	-0.5731	0.2219	-2.5829	8.3650
20	-0.1038	0.0350	-2.9643	3.3257
30	-0.0568	0.0405	-1.4016	0.9757
40	-0.0942	0.0577	-1.6313	0.5447
50	-0.0324	0.0614	-0.5278	1.1480

Sharpe ratio

Days after report	S.D. (Portfolio)	S.D. (SET Index)	Sharpe Ratio (Portfolio)	Sharpe Ratio (SET Index)
2	0.1683	0.0057	1.2338	21.4806
4	0.1348	0.0114	1.1291	9.4170
10	0.1381	0.0110	0.1318	6.4054
20	0.1194	0.0144	-0.4671	1.0006
30	0.1016	0.0224	-0.9836	-1.9675
40	0.0934	0.0265	-1.5949	-3.7834
50	0.0981	0.0339	-2.1843	-4.6696

Treynor ratio

Days after report	β_{port}	Treynor ratio (Portfolio)	Treynor ratio (Set Index)
2	-11.3340	-0.0183	-0.0109
4	3.2695	0.0465	0.0328
10	8.3650	0.0021	0.0084
20	3.3257	-0.0167	0.0043
30	0.9757	-0.1024	-0.0453
40	0.5447	-0.2734	-0.1843
50	1.1479	-0.1868	-0.1381

ARDL

Variables	Outcomes (y_t)		
	Price (AIC, BIC)	Returns (AIC)	Returns (BIC)
$report_t$	0.001 (0.001)	0.086 (0.086)	0.091 (0.087)
$report_{t-1}$	0.005*** (0.001)	0.401*** (0.087)	0.380*** (0.087)
y_{t-1}	0.978*** (0.005)	0.219** (0.094)	0.254*** (0.093)
y_{t-2}	-	0.180* (0.096)	0.229** (0.094)
y_{t-3}	-	0.175* (0.093)	-
R-squared	0.998	0.322	0.296
n	97	96	96

Granger causality

Test Hypothesis	Outcomes	
	Price	Daily Returns
H ₀ : report does not Granger-cause y	$\chi^2 = 1.270$ p-value = 0.530	$\chi^2 = 2.461$ p-value = 0.292
H ₀ : y does not Granger-cause report	$\chi^2 = 127.434^{***}$ p-value = 0.000	$\chi^2 = 20.494^{***}$ p-value = 0.000

P-values of 0.1, 0.05, and 0.01 levels are denoted by *, **, and ***, respectively.

Conclusions and discussion

- Considering only “buy” recommendations and no update, recommended stocks underperform the market.
- Positive return if sell next day, net return questionable depending on transaction costs.
- More evidence of past performance leading to recommendation, rather than the reverse.
- This analysis can be applied to specific sectors, brokerage firms, or time periods, for useful insights.