

The Usefulness of Financial Analysts' Reports: A Content Analysis

Carlos Pinho^{1,2}, Mara Madaleno^{1,2}, Helder Santos¹

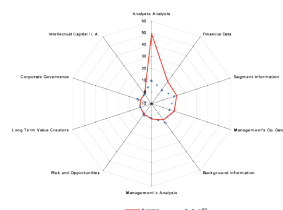
1 — Department Economics, Management and Industrial Engineering, University of Aveiro
 2 — GOVCOPP, University of Aveiro

FIGURE 1

Text information units – Mean and Standard Deviation (SD) – Distribution by category in %
 Notes: Values are in percentage terms for each category of information units. The components of each category are described in appendix 2 (Codification Tags – Categories and Sub-Categories). SD stands for standard deviation.

FIGURE 2

Text information unit's distribution for the Analyst Analysis category



Financial analysts are considered to be an influential class of information intermediaries in capital markets given that stock market investors strongly rely on sell-side analysts' forecasts while forming their investment decisions. Given the influence exerted over investors' beliefs and activities, those reports should contain all the necessary information in order to provide reliable target prices and help investors to form expectations. Whereas other works test the reliability of target prices, this paper investigates whether the method and the parameters of the evaluation report are clearly disclosed and if the procedure undertaken for that is in accordance to the theoretical conventions provided by the Jenkins Report.

Using content analysis, we explore and encode 73 reports of PSI20 listed companies, presenting empirical results regarding the distribution of categories of information. Subcategories included in Analyst Analysis account for 50% of all available information, while those of Financial Data and Management's Operational Data represent 13% and 10%, respectively, of information units contained in the overall analyzed reports. Empirical results indicate that although there exists an increased importance of intangible and intellectual assets, analysts and the companies for which they work for will always have a tendency to rely on numbers. These, in general, disclose a great amount of financial and high level operational business data, usually delivered as reflections by the analyst itself, whereas only a few is presented using Management words. So, although capable of meeting users most

obvious needs, Portuguese investment firms reports still fail to provide important categories of information like corporate governance, intangible assets data and long term value creators matters. Sell side Portuguese analysts' reports also seem to respond positively when tested against the ability to report separately on each business segment of a company's business. Finally, even though lacking the necessary information to replicate the calculation made, Portuguese reports have in general the potential information to enable their readers with an understanding of the principles beyond the price targets computation as required by "ideal reports" guidelines.

REFERENCES

Pinho, C., Madaleno, M. and Santos, H. (2013), "The usefulness of financial analysts reports: A content analysis approach", *International Journal of Management (IJM)*, June, Vol. 30, No. 2, Part 2, pp. 631-648; ISSN: 0813-0183.

