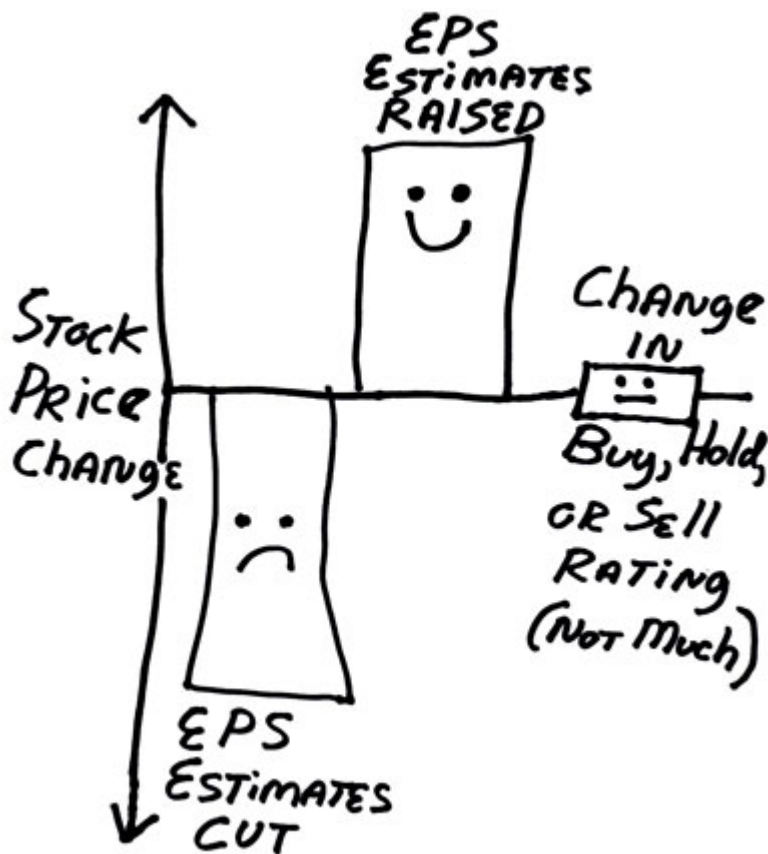


How Impactful Are Changes in Analyst Ratings?



Charles Rotblut, CFA
AAI Journal Editor

Before you give into any temptation to follow analysts' recommendations, consider this conclusion from three researchers: "On average, analysts' revisions are not highly correlated with subsequent long-run returns, indicating that analysts do not provide new information that is relevant for the long run for typical investors." The finding is from an appropriately named paper published in the Journal of Financial Economics, "**Can Analysts Pick Stocks for the Long Run?**" (A **draft version** is available on the SSRN website.)



The study finds that there is no aggregate post-revision return drift (PRD). This is an academic way of saying that the impact of an upgrade (e.g., from a buy to a strong buy) or a downgrade (e.g., from a buy to a hold) is not measurable 20, 60 or 120 days later. Yes, there might be an immediate reaction the day change is made, but it isn't lasting.

This lack of a PRD is a sign that analysts are not supplying new information about which stocks to pick or avoid. In other words, you cannot hope to profit by buying a stock that has been upgraded by analysts or avoid a loss by selling a stock that has been downgraded. An exception may exist with small, less frequently traded companies, but even then, the data is murky.

[Read more »](#)

More on AII.com

- **AII Stock Screen Performance History** - Year-by-year performance data for our earnings estimate revisions screens, along with performance data for all of the other AII stocks screens, updated monthly and grouped by category.
- **Earnings Estimates** - I explained in further detail what earnings estimates are and how they can lead to both higher (positive revisions) and lower (negative revisions) stock prices.
- **A Look at Relative Strength Measures** - Should a stock move upward in response to a change in an analysts' outlook, the move will likely be reflected in its relative strength. AII president John Bajkowski discusses relative strength in his latest AII Blog post.
- **Do You Pay Attention to Analyst Recommendations?** - See how members responded on the AII.com Discussion Boards.

Not an AII member? [Join today](#)

AII Sentiment Survey

One in three AII members say they are optimistic about the short-term direction of stock prices, making this just the third time since last November that bullish sentiment has been this high. [More about this week's results.](#)

What's Trending on AII

1. **From Saver to Spender: Managing Your Money in Retirement**
2. **Avoid the Top 10 Mistakes Made With Beneficiary Designations**
3. **Calculating Intrinsic Value With the Dividend Growth Model**

The Week Ahead

Charles Rotblut, the editor of the AAI Journal, will speak to the AAI **Philadelphia Chapter** on Tuesday.

Friday, April 29, is the deadline for filing and suspending Social Security benefits for the purpose of making your spouse eligible to take spousal benefits. You won't be able to do so afterward. Information about the rule change can be found in the **January AAI Journal**.

Nearly 200 members of the S&P 500 will report earnings next week. Included in this large group are Dow Jones industrial average components: Apple (**AAPL**) on Monday; 3M (**MMM**), Du Pont (**DD**) and Procter & Gamble (**PG**) on Tuesday; Boeing Co. (**BA**) and United Technologies (**UTX**) on Wednesday; and Chevron (**CVX**) and Exxon Mobil Corp. (**XOM**) on Friday.

The Federal Open Market Committee will hold a two-day meeting starting on Tuesday. The meeting statement will be released Wednesday at 2:00 p.m. ET. The **futures market** is pricing in a 97.7% probability of the target rate being unchanged.

Elsewhere on the economic calendar, March new home sales will be released on Monday. Tuesday will feature March durable goods orders, the Conference Board's April consumer confidence survey and the February Case-Shiller home price index. February international trade and March pending home sales will be released on Wednesday. Thursday will feature the first estimate of first-quarter GDP. March personal income and spending, the April Chicago PMI and the University of Michigan's final April consumer sentiment survey will be released on Friday.

It's not often that a Federal Reserve official makes a public appearance the same week as an FOMC meeting (beyond Chair Janet Yellen's quarterly press conferences), but Dallas president Rob Kaplan will speak on Friday.

The Treasury Department will auction \$26 billion of two-year notes on Monday, \$34 billion of five-year notes on Tuesday and both \$15 billion of floating two-year notes and \$28 billion of traditional seven-year notes on Thursday. You can buy these bonds directly from the **Treasury Department**.

Read more »

Investing the "AAI Way" has always been about distilling current financial theory and academic research into knowledge that our members can act upon. As a member of AAI, you'll receive monthly updates on the holdings, performance and investment strategies behind our real-world portfolios. The AAI Model Shadow Stock Portfolio has generated

an average annual return of 12.1% over the last five years. **Join today** to receive your special guide to our model portfolios.