Abstract

In this study, we examine whether buy-side analysts’ forecasts are biased when they cover stocks that are held by the mutual fund. Specifically, we conduct an experiment with buy-side analysts and fund managers where we manipulate whether the forecasts are released to colleagues and clients or kept private, and whether the mutual fund has made an investment in the stock based on the recommendation of the analyst. We posit and find evidence that when forecasts are made available to other colleagues and clients, participants’ forecasts are more positive when the mutual fund has a holding (versus no holding) in a stock based on the buy-side analysts’ recommendations. These forecasts are also more optimistic than a control group where participants have an accuracy goal. This effect disappears when the forecasts are kept private. Our findings indicate that institutional features in the asset management setting create conditions for buy-side analysts’ forecasts to be optimistic.

Keywords: buy-side analysts; fund managers; forecasts; optimism