Q. Reference: PUB-NP-056

Mr. Coyne suggests that the "objectivity" of analyst estimates can be assessed by comparing them to "an independent source." He then proceeds to compare three analyst estimates with Value Line estimates. What is gained by this exercise, since Mr. Coyne is merely comparing the Value Line "analyst" beliefs with those of three other analysts. Please clarify as to why Mr. Coyne believes this exercise reveals something about analyst objectivity?

A. Prior to the passage of new financial regulations, some people believed that equity analysts had an inherent conflict of interest that caused them to provide EPS forecasts that were upwardly-biased. For example, some argued that brokerage analysts received higher compensation, more investment banking business for their firm, and more access to non-public information if the analysts provided higher EPS estimates and more "buy" recommendations.

Value Line is an independent provider of investment information to subscribers, and is not in the investment banking business. Therefore, Value Line analysts have no financial incentive to issue overly optimistic EPS projections in order to secure more investment banking business or gain access to non-public information. The purpose of Mr. Coyne's comparison of consensus EPS estimates from Zacks, First Call, and SNL to EPS estimates from Value Line is to demonstrate that there is no material difference in the growth rates from analysts working for investment banks as compared with estimates provided by analysts working for an independent provider of investment information such as Value Line.

Please also see Mr. Coyne's response to Request for Information PUB-NP-092, for additional evidence concerning the issue of whether analyst's earnings growth rates are potentially biased and overly optimistic.