

1 **Q. Evidence of Ms. McShane Pages 63: Please provide all evidence that “sell side”**
2 **analyst forecasts are accepted by investors and fully incorporated into equity prices.**
3 **Further please indicate why “buy side” analysts exist if sell side analyst’s views are**
4 **fully incorporated into equity prices?**
5

6 A. It would be impossible to conclude with certainty whether sell side analysts’ forecasts are
7 always accepted by investors and fully incorporated into stock prices. There were close
8 to 600 studies whose abstracts are contained in the I/B/E/S Bibliography dated March
9 2000, which analysed various aspects of analysts’ forecasts. These studies fell into a
10 relatively small number of categories, none of which attempted to measure the exact
11 relationship between investors’ expectations and analysts’ forecasts. A newer version
12 dated 2007 included some 575 abstracts. The mere fact that researchers study in great
13 detail the characteristics of analysts’ forecasts underscores the importance of analysts’
14 forecasts to equity price formation. Further, it is widely recognized that stock prices rise
15 and fall in reaction to actual results which differ from the forecasts (earnings surprises).
16

17 Sell side analysts work for brokerage firms; their research is focused on determining
18 whether an investment is suitable for the firm’s clients generally. Buy side analysts work
19 for pension funds and other institutional investors; their research is more focused on
20 determining if investments are appropriate for specific portfolios or investment strategies.
21 Buy side analysts’ research is not available outside of the firm by which they are
22 employed.