

1 **Q. Please provide the evidentiary basis for saying that investors actually rely on analyst**
2 **forecasts? Is Mr. Coyne aware of any surveys of institutions and how they use or**
3 **rely on sell side analyst forecasts? Would Mr. Coyne agree that the projections he is**
4 **using are commonly from what are referred to as sell-side analysts and that there**
5 **are also buy-side analysts? If investors relied on such reports why would buy side**
6 **analysts exist?**
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8 A. A Spring 1988 article published in *Financial Management* by Dr. Robert S. Harris
9 entitled *Using Analysts' Growth Forecasts to Estimate Shareholder Required Rates of*
10 *Return* found that analysts' earnings forecasts are used by investors to set stock prices. In
11 his review of the literature, Dr. Harris stated:

12 *Much of the burgeoning literature on properties of FAF [Financial*
13 *Analysts' Forecasts] is surveyed by Givoly and Lakonishok [8], Of*
14 *primary importance for this work is the relationship between FAF and*
15 *investor expectations that determine stock prices. Such forecast data are*
16 *readily available. That they are used by investors is evidenced by the*
17 *commercial viability of services that provide such forecasts and by the*
18 *results of studies of investors' behavior (Touche, Ross and Company [16],*
19 *Stanley, Lewellen and Schlarbaum [5]). Moreover, a growing body of*
20 *knowledge shows that analysts' earnings forecasts are indeed reflected in*
21 *stock prices. Such studies typically employ a consensus measure of FAF*
22 *calculated as a simple average of forecasts by individual analysts. Elton,*
23 *Gruber, and Gultekin [5] show that stock prices react more to changes in*
24 *analysts' forecasts of earnings than they do to changes in earnings*
25 *themselves, suggesting the usefulness of FAF as a surrogate for market*
26 *expectations. In an extensive NBER study using analysts' earnings*
27 *forecasts. Cragg and Malkiel 14. p, 1651 conclude "the expectations*
28 *formed by Wall Street professionals get quickly and thoroughly*
29 *impounded into the prices of securities. Implicitly, we have found that the*
30 *evaluations of companies that analysts make are the sorts of ones on*
31 *which market valuation is based."*
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34 No, Mr. Coyne would not agree that the forecasts he relies upon are “sell-side” analysts.
35 First, SNL Financial, Zacks and Thomson First Call are consensus estimates taken from
36 all analysts that cover the stock, buy or sell side, or independent. Second, Value Line
37 estimates are from a completely independent organization, not associated with either the
38 buy or sell side.