

Institutional investor preferences for analyst forecast accuracy:

Which institutions care?

Natalia Mintchik^a, Ashley Wang^b, Gaiyan Zhang^c

a. c. University of Missouri-St. Louis, USA

b. Economist, Federal Reserve Board, USA

Abstract: We examine the association between analyst earnings forecast accuracy and three different types of institutional ownership for US firms: transient investors, dedicated investors, and quasi-indexers. After accounting for endogeneity, we find consistent evidence that transient investors prefer an information environment with lower forecast errors, while dedicated and quasi-indexers appear indifferent to analyst forecast accuracy. Interestingly, the presence of transient investors lead to lower forecast error, while the presence of dedicated investors and quasi-indexers increases forecast error. Our findings indicate that, the practice of achieving “predictable earnings” by management or analysts may only appeal to certain types of institutional investors

JEL: G11, G14, G30, M41

Keywords: Institutional investors, analyst forecast accuracy, transient investors, dedicated investors, quasi-indexers, earnings management

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