

Sneaking Return

Analyst Quotes on Stocks, Bonds, Commodities, Indices and other Assets, 09/2006 - 01/2007



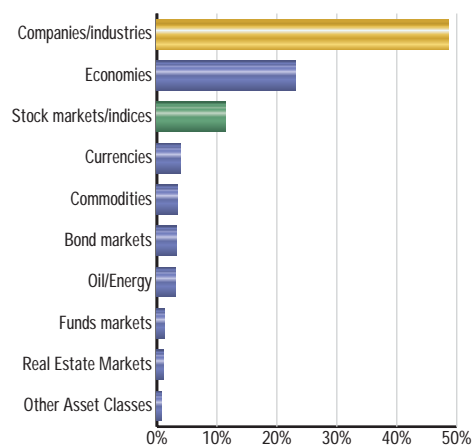
Memories of the great crash of the Millennium are fading quickly and stocks are soaring again. Analysts are becoming media stars again. Their expertise is sought after by journalists not only for stocks, but also for many other asset classes. Analysts are increasingly quoted especially in the analysis of foreign economies.

In its 10/2007 edition, **Focus Money**, the German financial magazine, lapsed back into boom mode with a nine-page story on successful analysts and their stock picks: “We test the best”, said the magazine promising that “real experts mostly hit the mark with their recommendations”. This is no isolated phenomenon, but quite a reverse to the frustration after the last downturn 2001. At that time bullish analysts were blamed by disappointed investors for their losses. The **Financial Times** summed up this attitude in its March 20, 2001 edition: “Shoot all analysts”. The newspaper quite conveniently forgot the role of the media in the market circles.

As during the last upturn in the markets, individual stocks and companies account for most of the quotes, followed by statements on individual economies and stock markets or indices. Nevertheless almost half of all information sourced to financial experts, ranging from analysts to fund managers and economists, relates to stocks (**graph 1**). Alternative investments like forex, commodities or real estate remain sidelined for the time being.

When looking at the most often addressed classes,

1) Share of various asset classes



Share of all analyst quotes

Source: Media Tenor
September 2006 - January 2007

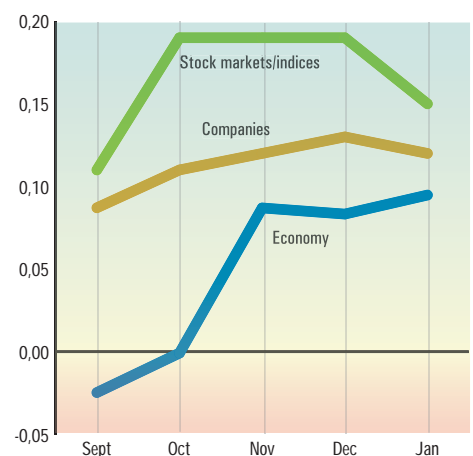
Basis: 77,801 statements
in 6 selected international business media

one is struck by the notable improvement in the rating of economies (**graph 2**). The upturn related to the German economy in the first line, which grew more strongly in the last quarter of 2006 than at any time since 2001, with jobless figures decreasing below the “magic” figure of 4 million registered unemployed. The experts quoted in the media had anticipated the new-found strength of the German economy already in November, while journalists remained more cautious in their comments, as general reporting is mainly driven by the jobless figures.

Rating of individual companies and stock markets in general on the other hand remained rather stable, suggesting an overall balanced selection of top and flop stocks. Hence selection of analyst quotes does not completely conform to the established patterns of business reporting in general. While headline reporting about companies focuses mainly on the most spectacular crises and scandals, analyst quotes seem to provide for a stable mix of positive and negative examples, for instance daily recommendations and underperformers. On the other hand, comments on positive instances seems to be more exhaustive – coupled with the understandable desire of the analyst houses to field a sufficient number of attractive investment products.

Despite the overall positive outlook, rating of companies and stock markets stayed rather moderate in comparison to the heydays of stock market speculation in 2000. In the period from February to December 2000, 38.7% of all analysts’ quotes on

2) Rating of various asset classes



Average rating (-1/+1) of the respective asset classes

Source: Media Tenor
September 2006 - January 2007

Basis: 60,428 statements
in 6 selected international business media

DAX companies conveyed a positive description, and only 19.8% were negative in tone. In the last five months, from September 2006 to January, this ratio changed to 27.7% positive statements and 18.2% negative quotes. These figures seem to suggest that the supply of negative analysts' comments is rather stable over time, providing sufficient critical news to maintain a "loser of the day" section in a newspaper. The production of positive analyst quotes on the other hand reflects the general sentiment on the market more conspicuously.

While the overall tone of analyst quotes is co-determined as well by journalists selecting the appropriate statements fitting the general story line of their text as with the general sentiment among analysts, the responsibility for the selection of the assets covered at all rests more squarely with the media. Thus some interesting differences between the analysed media outlets can be observed. Generally speaking the two "Anglo-Saxon" papers **Financial Times** and **Wall Street Journal Europe** devote a higher share of their reporting that is based on analyst quotes on "alternative assets" like real estate or forex than their continental competitors (graph 3). **Die Welt** and **Frankfurter Allgemeine Zeitung** as general interest media with a strong business focus, devote 16.2 to 16.7% of their analyst quotes towards stock markets in general and indices, more than the more specialised outlets, where the share of these quotes ranges from 6.4% in **Financial Times** to 12.9% in **Wall Street Journal**; the **NZZ** resembles more this

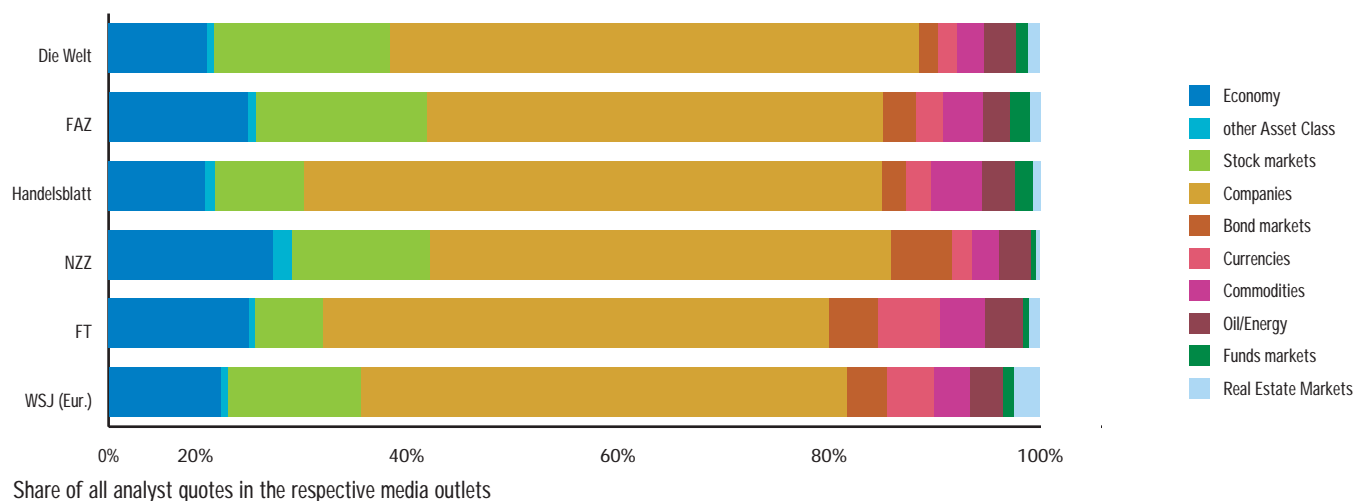
second group with a share of 13.1%. This does not result from a more extensive use of analyst quotes in the leading business papers. Quite to the contrary, **Welt** and **FAZ** published more statements quoting analysts than **Wall Street Journal** and **NZZ**, while **Handelsblatt** and **Financial Times** led in overall volume of analyst quotes.

NZZ and **FAZ** focused more on the analysis of economies, leading to the lowest share of quotes on individual businesses. With about 43% of all quotes focusing on companies, they were both way below average, while **Handelsblatt** dedicated 54.7% towards them.

Nevertheless the bulk of analyst quotes deals with individual companies, with the analyst statements either being used by journalists to support their argumentation in regular stories or appearing in separate opinion pieces of analysts or in interviews with them. The two latter categories account for about 10.9% of all analyst quotes. **Die Welt** and **FAZ** used these genres relatively more intensive than the other outlets, with 15-16% of all quotes published in opinion pieces or interviews with analysts. **NZZ** on the other hand refrained totally from independent stories giving analysts free play.

The regional structure of reporting clearly reflects the composition of the actual media sample. The large amount of general statements without a regional focus indicates the concise nature of analyst quotes as well, showing rather few concrete regional references (graph 4). As most of the quotes on

3) Share of various asset classes



Source: Media Tenor:
September 2006 - January 2007: Media comparison

Basis: 77.801 statements
in 6 selected international business media

companies do not offer any references to the location, awareness of the regional implications warrants some background knowledge from the public. Quite interestingly, the globalisation of the economy, which has been driving the interdependent markets quite for a long time now, is not well reflected in the selection of analyst quotes. Reference to the emerging economies, or even to China, Brazil, India and Russia are rather scarce. **Financial Times** and **Wall Street Journal** were not only more specific in their reference to the different regions but dedicated notably more of their analyst quotes to East Asia. While in the continental outlets about 5-6% of all analyst quotes dealt with the East Asian region, with **NZZ** attending to them in only 2.4% of all quotes, **WSJ** and **FT** set aside 14.7% of all analysts' statements to this area.

German and American blue chips and the relevant indices accounted for the biggest single asset classes in reporting on both sides of the Atlantic. The regional focus was most marked in **Die Welt** with 16.6% of all quotes pertaining to the DAX index or its constituent companies, but the other two German papers, **Handelsblatt** and **FAZ**, devoted 11.4% each to this segment. While the share in the international media ranged from 0.6% in **WSJ** to 2.6% in the **Financial Times**, the **NZZ** showed less interest in the leading companies of its biggest neighbour country, reporting about the DAX in only 2.2% of all analyst quotes.

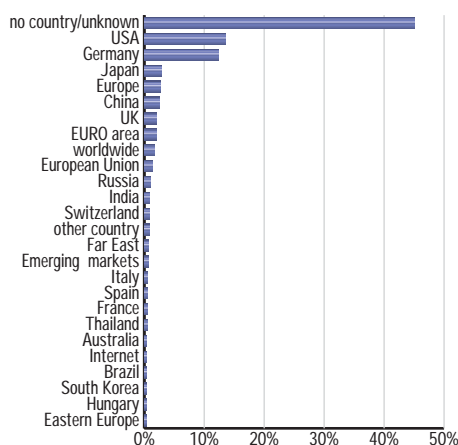
On the other hand, the **Wall Street Journal** report-

ed only slightly more intensively on Dow Jones 30 companies than its European counterparts. The share of DOW 30 groups and the index ranged from 1.1% in **FAZ** to 3.3% in the European edition of the **WSJ**. These figures could imply that the relative importance of the DOW 30 index lags behind that of its German counterpart, as quite a large number of U.S. companies that fascinated the markets lately, are no constituents of the DOW blue chip index.

This assumption is supported by the relative weight of the different industries. Almost 30% of all quotes deal with the IT and banking industries, while companies from the pharmaceuticals or insurance sectors remain below 5% of the overall analyst coverage of companies and industries (**graph 5**). As attention to IT companies is highest in the **Wall Street Journal**, this could be indicative of an American pre-occupation with the development of this sector driving the economy, quite apart from its representation in the indices. Companies like Apple, Sony or Google have dominated their American peers, while reporting in Germany focused on SAP and Siemens, the latter company rocked by the troubled divestment of its cell phone division and shocked by a wide-ranging corruption scandal. The structure of analyst quotes thus reflects the structure of reporting in general, with media coverage focusing on selected industries. Nevertheless, IT gets notably more awareness from analysts than in overall reporting.

Another important segment of analyst reporting deals with the automotive industry, which is espe-

4) Share of various regions

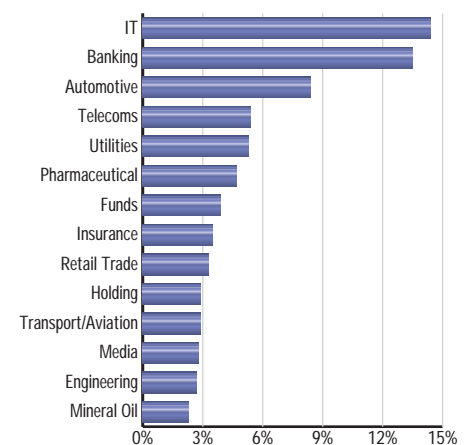


Share of all analyst quotes

Source: Media Tenor
September 2006 - January 2007

Basis: 77,801 statements
in 6 selected international business media

5) Share of various industries



Share of all analyst quotes about companies/industries

Source: Media Tenor
September 2006 - January 2007

Basis: 36,673 statements
in 6 selected international business media

cially important for the German and U.S. economies. Attention to the car companies was accordingly lowest in **Neue Zuercher Zeitung**, which instead focused more on banking, insurance, chemicals and pharmaceuticals, quite clearly reflecting the heavyweights of the Swiss economy. While the problems of the big American automotive companies, the boardroom battle at Volkswagen and the Siemens scandal have driven awareness, these cases accounted for much of the negativity as well. Even over the longer period the tonality of analyst quotes on the various companies was rather differentiated. On the one hand the disclosure of new information led to a re-evaluation of companies, like in the case of HSBC whose strategy was increasingly questioned, resulting in an overall negative rating in January, when the exposure to credit defaults in the U.S. sub-prime segment led to a management make-over in January. On the other hand various analyst houses gave conflicting evaluations of companies over time. Dependence on a few outlets for acquiring market information thus entails certain dangers, while analyst quotes exert a definite influence on the markets, as has been demonstrated by **Media Tenor's** research earlier (see **Medien Tenor**, Nr. 148, S. 94f.).

Different preferences evolve concerning the selection of analyst houses to be quoted. While valuable information concerning the predictive performance of analysts is readily available, for example from starmine or AQ Research, a significant share of

quotations seems to result from cluster effects, when journalists rely on analysts from banks or research firms based at the same location as the editorial team.

Nevertheless in the overall market, Morgan Stanley and Goldman Sachs turned out as the most frequently quoted analyst in all media outlets. German banks performed astonishingly low in this category, with only Deutsche Bank and Dresdner Kleinwort appearing among the top ten analyst teams. S&P dominated in the segment of credit rating even more obviously, as Moody's does not even appear in the ranks of the top 15. Based on the selection of journalists, American banks at least are portrayed as more competent than their German competitors. But with rising awareness, analysts' communications offer new opportunities to banks, not just in Germany, to display their expertise in the media and thus address a broader public. (ck)

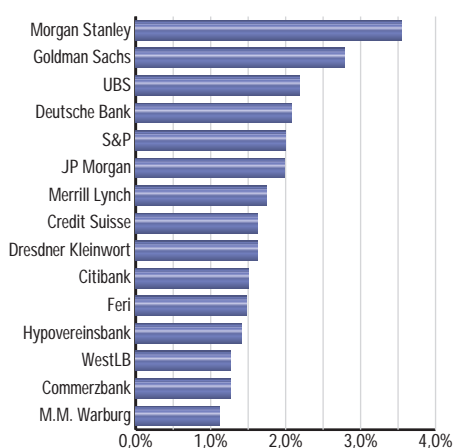
Basis:

Media: Die Welt, Frankfurter Allgemeine Zeitung, Neue Zuercher Zeitung, Handelsblatt, Financial Times, Wall Street Journal (European ed.)

Period of analysis: 01.11.2006 – 26.01.2007

Analysis: Evaluation of all quotes from analysts, traders, brokers, fund managers and economists on companies, industries, stock markets, indices, bonds, funds, commodities, real estate and economies as investment targets, in terms of topic structure, evaluation and sourcing

6) Share of top 15 analyst houses



Share of all analyst quotes

Source: Media Tenor
September 2006 - January 2007

Basis: 77,801 statements
in 6 selected international business media



J. P. Morgan

Research Links

http://www.uni-kiel.de/ifw/forschung/prognose/2007/1_07_deu.pdf

<http://www.starmine.com>

<http://www.aqresearch.com/index.htm>