Firm-specific information variation and financial analysts’ target price forecasts

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Abstract

We examine the relation between firm-specific information and financial analysts’ target price forecast accuracy. The motivation for this study originates from the recent increased release of analysts’ target price forecasts and the developing literature on the understandings of analysts’ target prices forecasting.

Our study shows that as more firm-specific information exists, the degree of information asymmetry between insiders (i.e., management) and outsiders (i.e., investors) increases and as a result, firm-specific information affects analysts’ target price forecast accuracy negatively. Specifically, we find that when firm-specific information is high, analysts’ target price forecasts for firms with more firm-specific information are less accurate. These results suggest that there exists an inefficiency of financial analysts in reflecting the implications of firm-specific information into their target price forecasts.

Keywords: analysts, target price forecasts, stock return synchronicity

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