

**THE CONTENT OF REPORTS ON ITALIAN STOCKS.
DO EVALUATION METHODS MATTER?**

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ABSTRACT

The paper presents an empirical study on the content of reports on Italian stocks. We collected 4,603 reports regarding 29 blue chips listed in Italian stock market and released during years 2000 – 2003 by important brokers and investment firms. We carefully examined each report to find out the evaluation method used to get the final recommendation. The first puzzling finding is that for most of reports (about 70%) it is not possible to understand clearly the evaluation method used. This behaviour is coherent only with a very strong reputation effect, so that it does not matter why an analyst says something but only what he says and who he is. Then we restricted the analysis to reports whose main evaluation method was elicited. We divided evaluation methods into two main categories: the one based on market ratios and the one on fundamental analysis, that is the in-depth estimation of future profits and cash flows. The two methods occur with a quite similar proportion, but the year by year approach shows that the situation has changed through time. While in year 2000 market ratios were above fundamental analysis, in the following three years the weight of market ratios has constantly declined and in year 2003 the position was reversed. At last, we assessed whether the evaluation methods have some impact on the estimates, measured by recommendation's *delta* ($(Target\ price - Current\ price) / Current\ price$). But we did not find any significant relation: it doesn't matter if the report is based mainly on supposed original estimates, which is the typical feature of fundamental analysis, or on well known market data. The quality and the value of a report, if there are any, don't rely on the evaluation method used.

Classification codes: 210, 330, 350.