

Downgrade warning

[Finance](#)



**ASSIGN
BUSTER**

Finance and Accounting November 19, Downgrade Warning • What is meant by "analysts independence"? When and how might analysts independence be compromised? What pressures do analysts face that might reduce their independence? Is maintaining a "buy" recommendation on a stock after its price has fallen evidence that an analysts independence is compromised? Do analysts who currently recommend investing in tech stocks and the broader stock market lack independence?

Ans) Analysts' independence means the freedom that the analysts have in promoting the efficiency of the markets and recommending an investor to buy or sell a particular stock. According to the report 'J. P. Morgan Tells Analysts To Warn of a Downgrade' analysts independence is negatively affected when it needs to clearly communicate to the company and the client banker the reason behind specific stock recommendations. Analysts are warned from conducting negative research and some firms penalize investors for recommending sale options.

Yes, the promotion of buying a stock when its price is low is a compromise on analysts independence.

Yes, the analysts who recommend investing in tech stocks and the broader stock market lack independence.

• What exactly does Peter Houghtons memo say? Does the memo say that analysts should compromise their independence? How does the memo raise questions about analysts independence? Does it make any difference whether "analysts arent pressured to change recommendations, but only to make factual changes"?

Ans) The memo of Peter Houghton does not directly point to analysts'

<https://assignbuster.com/downgrade-warning/>

independence. The memo states that analysts should consult the company and the client banker before making recommendations to an investor. Also the analyst should either accept the request of the research note recommended by the firm or should clearly communicate to the firm as to why it cannot follow those recommendations. Yes, there is difference between asking analyst to change recommendations and making factual changes.

- What are the "buy side" and "sell side"? Why might the "sell side" be unwilling to make "sell" recommendations on stocks? If the "buy side" has its own analysts, would the "buy side" ever look at "sell side" analysts reports?

Ans) The 'buy side' and the 'sell side' are the two types of analysts. 'Sell' recommendation is considered as a part of negative research which affects the firm negatively so the sell recommendation on stocks is viewed in a negative manner. "Sell-side analysts typically work for full-service broker-dealers and make recommendations on the securities they cover. Buy-side analysts typically work for institutional money managers— that purchase securities for their own accounts" (Analyzing Analyst Recommendations para. 6).

No, the 'buy side' does not refer to the 'sell side' analysts reports.

- Why might "sell side" companies extend the "normal, common courtesy" of warning firms before they downgrade their stocks? Would you consider this good business practice? What is Mr. Barkocys "buy side" criticism of such practices? Why might the "sell side" ignore such criticism?

Ans) Before downgrading a stock and recommending a 'sell' for the stock it is important to extend the normal common courtesy of communicating to the <https://assignbuster.com/downgrade-warning/>

firm that their stocks are being downgraded. This is very beneficial to the organization and lets the clients be more informed about the firm.

Yes, this is a good business practice because before a firm's stock is downgraded in the market it is important to inform the firm as it allows the firm as well as the investors to stay well informed about the markets.

Mr. Barkocy's criticism of such practice is that such a practice serves as a disservice to the analyst from the buy side which is ridiculous. The 'sell side' ignores such type of criticisms because the sell analysts are brokers who make recommendations only on the stocks they cover and they are interested in only those stocks which are covered by them.

- Former SEC chairman, Arthur Levitt, criticized analysts in January this year in a speech in Philadelphia. Read the speech at:

Levitt comments that a "" sell" recommendation from an analyst is as common as a Philly steak sandwich without the cheese" (Levitt). If analysts don't issue "sell" recommendations, how do they advise investors that they should sell certain stocks?

Ans) Former SEC chairman, Arthur Levitt, criticized analysts in his report titled 'The Future for America's Investors'. He says that the analysts only recommend buying stocks but do not advise investors on the appropriate time when they should sell the stocks.

When analysts do not issue 'sell' recommendations for a stock then the investor's investments are negatively hampered because of not selling at the correct time the unit price of the stocks reduces and instead of earning profits the investor ends up bearing losses.

The only methods through which the investor can sell certain stocks is by depending on the market reports and recommend his analysts' that he is

<https://assignbuster.com/downgrade-warning/>

interested in selling his stocks.

Work Cited

Analyzing Analyst Recommendations. U. S. Securities and Exchange Commission. 2010. Web. 19 Nov. 2011. Levitt, Arthur. Speech by SEC Chairman: The Future for America's Investors Their Rights and Obligations. U. S. Securities and Exchange Commission. 2001. Web. 19 Nov. 2011.