Are Financial Analysts Able to Forecast the Swiss Stock Market?

A Study on the Validity of the Efficient Market Hypothesis in Switzerland Based on Analysts' Recommendations

Master Thesis

In Financial Economics

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Submission date: 29.04.2013

Executive Summary

The thesis at hand analyses the Swiss stock market for market efficiency in the semi strong form according to the definition of Fama.[1] The empirical investigation is based on analyst recommendations for the years of 2003 to 2012. 215 stocks of the Swiss Performance Index (SPI) and 12'000 recommendations from Thomson Reuters Institutional Broker Estimate System (I/B/E/S) provided by Wharton Research Data Services (WRDS) have been investigated in 2 different studies. Study 1 analyses the abnormal returns of portfolios built on analyst consensus recommendation and finds that purchasing the buy and selling the sell portfolios with a timely response to recommendation updates leads to significant abnormal returns. If transaction costs are included returns in the sell and hold portfolios turn to losses and the return of the buy portfolio declines to an amount not reliably greater than zero. Study 2 is an event study that analyses 3 economic cycles (growth, recession, sideways movement) for the same recommendations. Buy, hold and sell recommendations in all 3 cycles earn significant abnormal returns over the event window which is 30 days before and 30 days after the event. Analyzing the abnormal returns however leads to the result that returns occur before the event and are therefore not attainable with a trading strategy based on analyst recommendations. Altogether market efficiency in the semi strong form could have been verified and validated for the Swiss stock market.

[1] Fama, 1970, p. 383