Notes

1 OEIC stands for "Open-Ended Investment Company" and is a UK collective investment fund. SICAV stands for "Société d'Investissement a Capital Variable" and is an open-ended collective investment fund in France and Luxembourg. BEVEK stands for "Beleggingsvennootschap met Veranderlijk Kapitaal" and is an open-ended collective investment fund in Belgium.

2 Investment-grade rated bonds have received a credit rating by Moody's of Baa or above and/or a credit rating by Standard & Poor's of BBB or above. We discuss these rating categories in more detail in Chapter 10.

3 P. Healy and K. Palepu, "The Fall of Enron," *Journal of Economic Perspectives* 17(2) (Spring 2003): 3–26, discuss how weak money manager incentives and long-term analysis contributed to the share price run-up and subsequent collapse for Enron. A similar discussion on factors affecting the rise and fall of dot-com shares is provided in "The Role of Capital Market Intermediaries in the Dot-Com Crash of 2000," Harvard Business School Case 101–110, 2001.

4 See R. Bhushan, "Firm Characteristics and Analyst Following," *Journal of Accounting and Economics* 11(2/5), July 1989: 255–275, and P. O'Brien and R. Bhushan, "Analyst Following and Institutional Ownership," *Journal of Accounting Research* 28, Suppl. (1990): 55–76.

5 Reviews of evidence on market efficiency are provided by E. Fama, "Efficient Capital Markets: II," *Journal of Finance* 46 (December 1991): 1575–1617; S. Kothari, "Capital Markets Research in Accounting," *Journal of Accounting and Economics* 31 (September 2001): 105–231; and C. Lee, "Market Efficiency in Accounting Research," *Journal of Accounting and Economics* 31 (September 2001): 233–253.

6 For example, see V. Bernard and J. Thomas, "Evidence That Stock Prices Do Not Fully Reflect the Implications of Current Earnings for Future Earnings," *Journal of Accounting and Economics* 13 (December 1990): 305–341.

7 Examples of studies that examine a "value share" strategy include J. Lakonishok, A. Shleifer, and R. Vishny, "Contrarian Investment, Extrapolation, and Risk," *Journal of Finance* 49 (December 1994): 1541–1578; and R. Frankel and C. Lee, "Accounting Valuation, Market Expectation, and Cross-Sectional Stock Returns," *Journal of Accounting and Economics* 25 (June 1998): 283–319.

8 For example, see J. Ou and S. Penman, "Financial Statement Analysis and the Prediction of Stock Returns," *Journal of Accounting and Economics* 11 (November 1989): 295–330; R. Holthausen and D. Larcker, "The Prediction of Stock Returns Using Financial Statement Information," *Journal of Accounting and Economics* 15 (June/September 1992): 373–411; and R. Sloan, "Do Stock Prices Fully Reflect Information in Accruals and Cash Flows about Future Earnings?" *The Accounting Review* 71 (July 1996): 298–325.

9 For an overview of research in behavioural finance, see *Advances in Behavioral Finance* by R. Thaler (New York: Russell Sage Foundation, 1993), and *Inefficient Markets: An Introduction to Behavioral Finance* by A. Shleifer (Oxford: Oxford University Press, 2000).

10 These forecasts were taken from I/B/E/S.

11 Time-series model forecasts of future annual earnings are the most recent annual earnings (with or without some form of annual growth), and forecasts of future quarterly earnings are a function of growth in earnings for the latest quarter relative to both the last quarter and the same quarter one year ago. See L. Brown and M. Rozeff, "The Superiority of Analyst Forecasts as Measures of Expectations: Evidence from Earnings," *Journal of Finance* 33 (1978): 1–16; L. Brown, P. Griffin, R. Hagerman, and M. Zmijewski, "Security Analyst Superiority Relative to Univariate Time-Series Models in Forecasting Quarterly Earnings," *Journal of Accounting and Economics* 9 (1987): 61–87; and D. Givoly, "Financial Analysts' Forecasts of Earnings: A Better Surrogate for Market Expectations," *Journal of Accounting and Economics* 4(2) (1982): 85–108.

12 See D. Givoly and J. Lakonishok, "The Information Content of Financial Analysts' Forecasts of Earnings: Some Evidence on Semi-Strong Efficiency," *Journal of Accounting and Economics* 2 (1979): 165–186; T. Lys and S. Sohn, "The Association between Revisions of Financial Analysts' Earnings Forecasts and Security Price Changes," *Journal of Accounting and Economics* 13 (1990): 341–364; and J. Francis and L. Soffer, "The Relative Informativeness of Analysts' Stock Recommendations and Earnings Forecast Revisions," *Journal of Accounting Research* 35(2) (1997): 193–212.

13 See M. Barth and A. Hutton, "Information Intermediaries and the Pricing of Accruals," working paper, Stanford University, 2000.

14 See P. O'Brien, "Forecasts Accuracy of Individual Analysts in Nine Industries," *Journal of Accounting Research* 28 (1990): 286–304.

15 See G. Bolliger, "The Characteristics of Individual Analysts' Forecasts in Europe," *Journal of Banking and Finance* 28 (2004): 2283–2309; M. Clement, "Analyst Forecast Accuracy: Do Ability, Resources, and Portfolio Complexity Matter?" *Journal of Accounting and Economics* 27 (1999): 285–304; J. Jacob, T. Lys, and M. Neale, "Experience in Forecasting Performance of Security Analysts," *Journal of Accounting and Economics* 28 (1999): 51–82; and S. Gilson, P. Healy, C. Noe, and K. Palepu, "Analyst Specialization and Conglomerate Stock Breakups," *Journal of Accounting Research* 39 (December 2001): 565–573.

16 See L. Brown, G. Foster, and E. Noreen, "Security Analyst Multi-Year Earnings Forecasts and the Capital Market," *Studies in Accounting Research,* No. 21 (Sarasota, FL), American Accounting Association; M. McNichols and P. O'Brien, in "Self-Selection and Analyst Coverage," *Journal of Accounting Research,* Supplement (1997): 167–208, find that analyst bias arises primarily because analysts issue recommendations on firms for which they have favourable information and withhold recommending firms with unfavourable information.

17 See H. Lin and M. McNichols, "Underwriting Relationships, Analysts' Earnings Forecasts and Investment Recommendations," *Journal of Accounting and Economics* 25(1) (1998): 101–128; R. Michaely and K. Womack, "Conflict of Interest and the Credibility of Underwriter Analyst Recommendations," *Review of Financial Studies* 12(4) (1999): 653–686; and P. Dechow, A. Hutton, and R. Sloan, "The Relation between Analysts' Forecasts of Long-Term Earnings Growth and Stock Price Performance Following Equity Offerings," *Contemporary Accounting Research* 17(1) (2000): 1–32.

18 See L. Brown, "Analyst Forecasting Errors: Additional Evidence," *Financial Analysts' Journal* (November/December 1997): 81–88; and D. Matsumoto, "Management's Incentives to Avoid Negative Earnings Surprises," *The Accounting Review* 77 (July 2002): 483–515.

19 For example, evidence of superior fund performance is reported by M. Grinblatt and S. Titman, "Mutual Fund Performance: An Analysis of Quarterly Holdings," *Journal of Business* 62 (1994): 393–416, and by D. Hendricks, J. Patel, and R. Zeckhauser, "Hot Hands in Mutual Funds: Short-Run Persistence of Relative Performance," *The Journal of Finance* 48 (1993): 93–130. In contrast, negative fund performance is shown by M. Jensen, "The Performance of Mutual Funds in the Period 1945–64," *The Journal of Finance* 23 (May 1968): 389–416, and B. Malkiel, "Returns from Investing in Equity Mutual Funds from 1971 to 1991," *Journal of Finance* 50 (June 1995): 549–573.

20 M. Grinblatt and S. Titman, "The Persistence of Mutual Fund Performance," *Journal of Finance* 47 (December 1992): 1977–1986, and D. Hendricks, J. Patel, and R. Zeckhauser, "Hot Hands in Mutual Funds: Short-Run Persistence of Relative Performance," *Journal of Finance* 48 (March 1993): 93–130, find evidence of persistence in mutual fund returns. However, M. Carhart, "On Persistence in Mutual Fund Performance," *The Journal of Finance* 52 (March 1997): 57–83, shows that much of this is attributable to momentum in stock returns and to fund expenses; B. Malkiel, "Returns from Investing in Equity Mutual Funds from 1971 to 1991," *The Journal of Finance* 50 (June 1995): 549–573, shows that survivorship bias is also an important consideration.

21 See M. Grinblatt, S. Titman, and R. Wermers, "Momentum Investment Strategies, Portfolio Performance, and Herding: A Study of Mutual Fund Behavior," *The American Economic Review* 85 (December 1995): 1088–1105.

22 For example, J. Lakonishok, A. Shleifer, and R. Vishny, "Contrarian Investment, Extrapolation, and Risk," *Journal of Finance* 49 (December 1994): 1541–1579, find that value funds show superior performance, whereas M. Grinblatt, S. Titman, and R. Wermers, "Momentum Investment Strategies, Portfolio Performance, and Herding: A Study of Mutual Fund Behavior," *The American Economic Review* 85 (December 1995): 1088–1105, find that momentum investing is profitable.

23 See D. Scharfstein and J. Stein, "Herd Behavior and Investment," *The American Economic Review* 80 (June 1990): 465–480; and P. Healy and K. Palepu, "The Fall of Enron," *Journal of Economic Perspectives* 17(2) (Spring 2003): 3–26.

24 For evidence on performance by pension fund managers, see J. Lakonishok, A. Shleifer, and R. Vishny, "The Structure and Performance of the Money Management Industry," *Brookings Papers on Economic Activity* (Washington, DC: American Accounting Association, 1992), 339–392; T. Coggin, F. Fabozzi, and S. Rahman, "The Investment Performance of US Equity Pension Fund Managers: An Empirical Investigation," *The Journal of Finance* 48 (July 1993): 1039–1056; and W. Ferson and K. Khang, "Conditional Performance Measurement Using Portfolio Weights: Evidence for Pension Funds," *Journal of Financial Economics* 65 (August 2002): 249–282.