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A Bear Call on Bullish Analysts

By Justin Lahart

Anyone who has listened to earnings conference calls may have noticed that the bullish analysts don't always ask the most trenchant questions. Companies seem to have noticed this, too.

But [new research](#) shows that when companies call disproportionately on bullish analysts, they may be about to run into trouble.

Economists Lauren Cohen and Christopher Malloy at **Harvard Business School** and Dong Lou of the **London School of Economics** analyzed the transcripts of U.S. quarterly conference calls between 2003 and 2011. They looked at how the recommendations of analysts who were called upon compared to the average.

The analysis found that companies which inordinately favored bullish analysts on conference calls often just met, or barely exceeded earnings forecasts — something that can be a sign of manipulated earnings — and were more likely to restate earnings later. They were also more likely to raise cash through a secondary stock offering shortly thereafter, giving them cause to try to give their share price a short-term boost.

It's not just companies that attempt to manipulate what sorts of questions are asked in order to keep adverse news from spilling out, notes Mr. Cohen. Politicians take care when picking which reporters to call on during press conferences, for example.

But in the corporate environment, at least, the bad news may not be kept at bay for long: A portfolio that shorted companies that cast their conference call Q&A sessions with bulls and went long the rest would outperform the overall market by about 10% to 12% per year, the economists found.

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