Individual Analysts’ Earnings Forecasts: Evidence for Overreaction in the UK Stock Market

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This paper presents an analysis of two forms of overreaction (generalized overreaction and overreaction to prior earnings changes) in analysts’ earnings forecasts for the UK stock market, using a sample of individual forecasts of earning per share from a British investment bank over the period 1989-2002. Given that previous UK empirical research over 1980s and mid ‘90s has provided limited and contradictory findings, we investigate whether and how overreaction of analysts forecasts varies across forecast horizons, firm size (small and large) and growth opportunities (high and low P/E ratio) in order to provide further and comparable evidence. Overall, our findings support the generalized overreaction hypothesis but reject the firm size effect, the overreaction for high P/E ratio companies and the higher overreaction regarding the forecasting horizon.

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