CEOs favor stock analysts with the same first name, study shows. Here's why.

www.cbsnews.com/news/analyst-ceo-pairs-name-matching-accurate-financial-forecasts/

MoneyWatch
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Although sharing a first name with someone can create a bond, it may also give rise to illegal behavior. New research finds that company CEOs appear to give preferential treatment to securities analysts with the same first name.

The study suggests that name matching among securities analysts and CEOs may led to unfair favoritism, even prompting some chief executives to disclose privileged company information with select analysts. While CEOs typically share forecasts with analysts and investors on public conference calls and the like, securities law bars executives from sharing material information privately.

Exhibit A that something may be amiss: Over a period of 25 years, securities analysts with the same names as CEOs delivered more accurate financial forecasts than those with different first names, the researchers found. The authors of the report on name sharing and favoritism in information disclosure, which was published in the peer-reviewed journal Proceedings of the National Academy of Sciences (PNAS), say that likely isn't a coincidence.

Instead, the improved forecast accuracy suggests it is "due to CEOs privately sharing pertinent information with name-matched analysts," according to the researchers, who hail from the University of California, Berkeley, University of California, Los Angeles, Chinese University of Hong Kong-Shenzhen and Washington University in St. Louis.

The effect is even more pronounced among CEO-analyst pairs who share uncommon first names.

"After you get main results, you try to see if the relationship will be either stronger or weaker. One theory we came up with is the more uncommon the first name, the stronger the relationship between them," Omri Even-Tov, an accounting professor at University of California, Berkeley, Haas School of Business and one of the researchers behind the report, told CBS MoneyWatch**.**

He added, "If you have a very unique name, you probably feel more connected and more willing to share information."

Illegal but hard to control

Researchers also found that the accuracy of securities analysts' financial forecasts diminished over time.

"Over time they have multiple interactions. It's not a one-time event. The analyst usually covers a company for a period of time and the CEO stays there," Even-Tov said.

For example, when a CEO was replaced by a new leader with a different name, analysts' forecasts became less accurate, supporting their theory that illegal information sharing takes place.

"That confirms results are driven by this commonality," Even-Tov said.

This kind of private information sharing is illegal, but hard to regulate, he noted. Chief executives are required under disclosure regulations to make public any information that's shared with an analyst.

"It's hard to enforce, there are no cameras in the different meetings that occur between analysts and CEOs," he said.

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