Do Analysts Pay Attention to Advertising? Should They?

By

Dr Kim Min-chung

Date: Friday, 13 February 2009
Time: 11:00 a.m. - 12:00 noon
Venue: M802

All interested are welcome
Do Analysts Pay Attention to Advertising? Should They?

ABSTRACT

Kim Min-chung, the Hong Kong Polytechnic University
Leigh McAlister, the University of Texas at Austin

Relating marketing expenditures to the value of the firm is a major concern for marketing managers. Marketing scholars have recently begun to address this important research question. In this article, we propose a fundamental signal from advertising and show that is related to cumulative abnormal stock returns (CAR, returns in excess of expected returns predicted by the three-factor model of Fama and French 1993), after controlling for the accounting and finance variables known to affect the CAR. In addition, we show that fundamental signal from advertising is not related to changes in analysts’ expectation of firm value. We thus provide evidence that financial analysts under-react to the fundamental signal from advertising, despite the fact that the measure is impounded in firms’ stock prices. With the findings, this paper joins a growing literature that demonstrates a link between marketing and financial value of a firm.

Keywords: analysts’ forecasts, forecast errors, fundamental signals, advertising, advertising effectiveness, firm value, cumulative abnormal stock returns