Belief changes and expectation heterogeneity in buy- and sell-side professionals in the Japanese stock market

Ryuichi Yamamoto\textsuperscript{a} and Hideaki Hirata\textsuperscript{b}

\textsuperscript{a} Department of International Business, National Chengchi University, Taipei 116, Taiwan
\textsuperscript{b} Department of Business Administration, Hosei University, Tokyo, Japan

Abstract
This paper documents the determinants of the expectation heterogeneity of stock price forecasters on the Japanese Nikkei Stock Average. We use monthly survey data distributed by QUICK Corporation, a Japanese financial information vendor in the Nikkei Group. We examine the determinants by categorizing our sample into buy-side and sell-side professionals, and find that the sources are attributed to the difference in the behavior of the buy- and sell-sides in the following ways. First, sell-side professionals have a more optimistic view than buy-side professionals, suggesting that heterogeneity arises, because different types of professionals exist in the same market. Second, heterogeneity arises because buy- and sell-side forecasters make different interpretations on the current state of the economy, although they share the same information. We consider return volatility as the information on the current state of the economy as an example. But buy-side and sell-side professionals change their expectations of the future prices in different ways in response to changes in volatility, generating the heterogeneity of expectations. Third, we show that buy-side forecasters refer to how sell-side professionals evaluate the market, and they use the information observed even several months ago for making their expectations. However, the sell-side does not observe and refer to what the buy-side thinks on the future. The result implies that expectations are heterogeneous because different types of investors have different information sets for making their predictions.

Keywords: Expectation heterogeneity, belief changes, survey data, Japanese economy