

Financial Markets Forecasts Revisited: Are they *Rational*, *Herding* or *Bold*?*

Ippei Fujiwara[†], Hibiki Ichiue[‡],
Yoshiyuki Nakazono[§], and Yosuke Shigemi[¶]

April 2012

Abstract

We test whether professional forecasters forecast *rationally* or *behaviorally* using a unique database, *QSS Database*, which is the monthly panel of forecasts on Japanese stock prices and bond yields. The estimation results show that (i) professional forecasts are behavioral, namely, significantly influenced by past forecasts, (ii) there exists a *stock–bond dissonance*: while forecasting behavior in the stock market seems to be *herding*, that in the bond market seems to be *bold* in the sense that their current forecasts tend to be negatively related to past forecasts, and (iii) the dissonance is due, at least partially, to the individual forecasters' behavior that is influenced by their own past forecasts rather than others'. Even in the same country, forecasting behavior is quite different by market.

JEL Classification: D03; G17.

Keywords: Anchoring; Bold; Herding; Survey Forecasts.

*We thank the QUICK corporation for the permission of using the panel data on each individual forecast. We have benefited from discussions with the seminar participants at the Bank of Japan, and Waseda University. Views expressed in this paper are those of the authors and do not necessarily reflect the official views of the Bank of Japan.

[†]Australian National University, CAMA, EABCN, and Globalization and Monetary Policy Institute (FRB Dallas). Email: ippei.fujiwara@anu.edu.au.

[‡]Bank of Japan. Email: hibiki.ichiue@boj.or.jp.

[§]Waseda University and Research Fellow of the Japan Society for the Promotion of Science. Email: ynakazono@fuji.waseda.jp.

[¶]Bank of Japan. Email: yosuke.shigemi@boj.or.jp.