

Private Information and Analyst Coverage: Evidence from Firm Survey Data*

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Abstract

Using a unique panel of survey data on Japanese firms, we provide evidence that firms hold private information revealed in the survey that has predictive power for stock returns. Specifically, we find that the information contained in firms' industry demand forecasts can predict the stock returns of the sector and individual firms up to the next five years. We also uncover the origin of the information advantage of firms, by examining its relation to analyst coverage. To examine the source of the information asymmetry this result implies, we focus on the extent to which firms are covered by securities analysts and find that such information asymmetry arises only in the case of firms not sufficiently covered by analysts.

JEL Classification: D84; G23

Keywords: analyst coverage; efficient market hypothesis; return predictability; information advantage; private information; survey data

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