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A QUALITATIVE INQUIRY INTO THE ISSUES OF INFORMATION CONTENT OF ANALYSTS' REPORT: EVIDENCE FROM MALAYSIA

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Abstract

Analyst report is one of the reference sources available to investors in enhancing their decision-making process of investment. Analyst report plays a significant role in recommending shares and disseminating market information to the investor. However, in the context of Malaysia, the analyst report tends to over-rely on quantitative information and statistical analyses in producing recommendations to investors. As a result, analyst report is deemed to have less predictive power from investors' perspective. Using a semi-structured interview, we investigate the informational content of analyst report in Malaysia by conducting an in-depth interview with six respondents from institutional and retail investors. The findings from the interview reveal that the analyst report in Malaysia tends to disclose information based on simple statistical analyses to formulate recommendations, and tends to ignore other significant qualitative information. This study adds to the current literature by proposing an adaption of both quantitative and qualitative information as the mode of informational disclosure in the analyst report.

JEL Classification: *G1, G10, G1*
Keywords: *Analyst report; Qualitative information; Interview method; Malaysia*

1. Introduction

Research on analyst report is explicitly studied by academicians and finance scholars alike. The literature has revealed that a majority of investors obtain vast information from the analyst report, particularly one related to the quantitative information relating to a company's financial strength and stability. Thus, the analyst report assists economic agents (investors) to come up with proper and efficient investment decision process, since it contains robust information related to an investment (Asquith et al., 2005; De Franco

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et al., 2007). The use of analyst report helps investors in selecting the best stocks for investment purposes in the movement of stock price driven by randomly available information in the market (Ryan & Taffler, 2004; Womack, 1996).

Although an analyst report helps investors to make an investment decision, it tends to bypass the informational barriers in the market by capturing new types of information related to a company and disclosing the information gathered to the investors. As far as the investor is concerned, an analyst report tends to be a good alternative when it comes to making an investment decision. Previous studies have clearly indicated how changes in the analyst report affect share prices. To illustrate, share price movement is significant with any changes that occur in an analyst report. Stock prices may drop around four percent when the analyst downgrades and can surge up to three percent when the analyst upgrades the stock recommendation (Davies & Canes, 1978).

Given the importance of analysts in an investment environment, the analysts are obviously accountable to what type of information is disclosed in the report. In other words, the role of an analyst is clearly important in delivering accurate and valid information to the investors, as analysts are accountable for each piece of information in the analyst report. As for the investors, since market players tend to react fast to all of the available information, it is thus difficult for an ordinary investor to process information in a similar mode due to the lack of time and resources in obtaining, gathering, and processing existing and new information (Hirst et al., 1995). This issue becomes even more challenging when it comes to businesses that are involved in various conglomerate business activities. In normal circumstances, current businesses in the era of globalisation are affected by various factors that influence firm reputation and stability, such as firm specific factors like governance issues, corporate social responsibility, as well as accountability and auditing. Other factors include country specific factors such as economic issues, political stability, and international law related to import and export, which may have direct and indirect effect on the firm in one way or another. Due to this, a majority of investors find that it is very expensive to gather all this information that may affect the performance of a company.

Fernandez (2001) claims that analysts' production of information is a kind of "life-blood" to the market and investors. By producing a complete version of an analyst report, analyst is able to contribute to the reduction of asymmetric information, which could otherwise cause potential harm to external stakeholders rather than internal stakeholders. Releasing enough information to the investors is expected to minimise the issue of asymmetric information that takes place in the market as well. Amir and Sougiannis (1999), when it comes to the reduction of asymmetric information, an analyst report is able to alleviate issues related to informational content in the financial statement. The authors maintained that the ability of an analyst report to reduce asymmetric information is greater for a firm that has higher risks as compared to the one which has a lower risk.

Generally speaking, the analyst report reduces asymmetric metric information as all the information disclosed in the analyst report are public information and all investor will share the same information, subsequently promoting price discovery and efficiency. But this may not be necessarily true as in reality, not all investors are using both the information given in the report

and their own source of information in their investment decision making process. The analyst report benefits active players in the capital market, particularly those who lack resources, time, and information. In general, the naive investor accepts whatever information is disclosed by a company and this may allow the company to release biased information in order to enjoy higher economic benefits. To avoid this issue, the analyst's role in reducing this gap is very important, one attainable by providing structured information to the investors. Based on the fact that investors tend to directly follow an analyst report from the unbiased information disclosed in the report, Malmendier and Shanthikumar (2005) therefore argued that this makes the market move attractive and efficient.

Based on what has been discussed, it is clear how significant the role of the analyst report in the field of information disclosure is. One of the main issues attached with the analyst report is the lack of qualitative information in the report. Shipper (1991) claimed that an analyst report mainly focuses on statistical properties without taking into account the full decisive context and economic incentives which affect these properties. In addition, Loh and Stulz (2011) have found that sophisticated statistical measurement causes analysts to overestimate the analyst forecast and that it does not fully capture the information prior to price changes.

The disclosure of qualitative information in the analyst report has been explicitly researched and it is argued that qualitative information will better reflect the present and future performance of a company. Even though some information is reflective in share prices and taken into account by analysts when deriving target price and recommendation, not all information is incorporated in the report. The missing information includes that of management skills, financial transparency, and competitiveness (Moody, 2007; Standard & Poor, 2008). This study is inspired by an article written by Groysberg et al. (2012) in which in their study, the authors posited that analysts tend to normally make use of a lot of information when it comes to the recommendation of stocks. Among the influencing factors that analysts consider when recommending shares to investors are mainly driven from industry growth, quality of top management, innovation of product, corporate governance, and so forth. In the US, all of this information is already published and available in the management discussion and analysis (MD&A). However, the same cannot be said in the context of Malaysia as very limited amount of information that principally relating to the qualitative information with regards to a company is disclosed.

Moreover, the extensive coverage of quantitative analysis in the analyst report appears to be less robust since the reports produced mainly focus on quantitative and basic analysis in the Malaysian context. This quantitative analysis mainly covers share information, forecast revision, financial indicators, score cards, share performance, segmental analysis, earnings summary, and valuation. Atlinkilic and Hansen (2009), and Zhang (2006) asserted that an analyst report is able to provide a good source of information if it fully captures the entire available information.

Hence, it would be interesting to investigate the validity of the recommendations made by analysts. With this problem and motivation at hand, the current study initiates to undertake an in-depth analysis on the issues and possible solutions regarding the matter of analyst report published in Malaysia. Therefore, the main objective of this study is to explore the issues

relating to analytical and informational content produced by analysts in their stock recommendation. Basically, this research is guided by a specific research question, which is: What are the issues attached with the analyst report and how can those issues be solved?

This study claims to make two significant contributions. Firstly, the novel contribution of this study is contemporaneous with recent researches that adapt quantitative and qualitative information as a mode of informational content in the analyst report. This study seeks to propose ideas on how to further enhance the decision-making process of investors by understanding their requirements and what they actually need when making an investment decision. This is to ensure that analysts are able to produce reports which take into account all available information without any element of biasness or manipulation. This also highlights the element of accountability as analysts may clearly understand their role when preparing their reports.

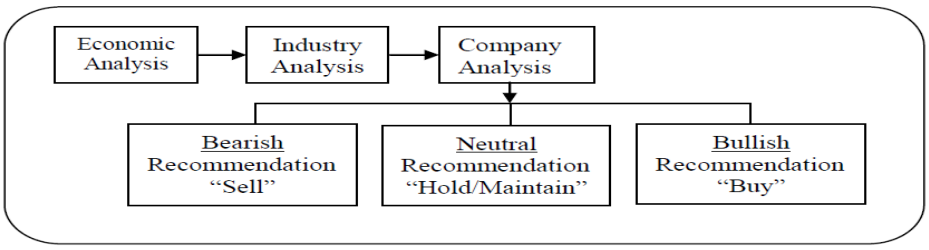
Secondly, this study contributes to the literature on information intermediaries. This study produces valuable insights on how analysts can generate better reports by focusing on information that have the largest impact towards the selection of the best combination, individual security, or portfolio. In addition, this study significantly claims to contribute to the body of quantitative and qualitative literature by focusing on how investors and analysts process, consume, and make use of all available information. The study moves further by demonstrating the importance of qualitative information disclosure in the analyst report.

The structural remainder of this paper is organised as follows: the second part discusses the literature on analyst report, while the third section elaborates on the research methodology and the data collection method. Section four depicts the analytical part of the study and the last section provides the concluding remarks.

2. Literature Review

An analyst's recommendation is basically a source of information in which someone recommends shares to the target investors. The work of an analyst is widely popular as it covers a broad job scope and different types of market such as bonds, derivatives, and equities. Basically speaking, analysts disclose important information related to a company in their research report's recommendation, which can be a one or two-page summary report. According to Farooq (2008), an analyst report usually contains the following:

- Detailed description of a company's financial highlights using some key financial indicators;
- Justification behind the reason as to why the analyst believes the company will succeed or fail; and
- From the mathematical and financial modelling, the recommended price will be derived for next year or next month along with information about the buying, selling, and hold decisions.



Note: This figure illustrates the processes involved in analysing stocks by the analyst.

Figure 1: The taxonomy of an analyst recommendation report.

Figure 1 illustrates that analysts tend to adopt the top-down approach in the preparation of recommendation report by initially analysing the economic factors that affect stock prices. The information obtained is used for economic analysis in order to select the best industry to invest in. From here, analysts will make recommendations to their clients by selecting the best companies within the industry. However, there is a considerable body of literature proving that there is an unclear consensus on the benefit of analyst recommendation to the investor due to the imperfection and limitation in the disclosure of information in the report and the accuracy of the price recommendation.

There are quite a number of studies which have investigated the relationship between analyst recommendation and share prices. For example, Savor (2012) studied stock returns after major price shocks by employing stock return on a daily basis, firm size, and trading volume from COMPUSTAT for the period of 1995 until 2009. The result showed that price movement accompanied by strong information was followed by drift. The study concluded that investors tend to slowly respond to normal news such as fundamental information, but will exaggerate as a result of other exogenous and endogenous news that strongly influence share prices.

Chen et al. (2005) provided an interesting result in their study in which the authors managed to quantitatively justify that the analyst report was not strong enough to have predictive power in detecting share price momentum. This is because analyst reports do not highlight the increase in share price level on normal days (t-0). Similar arguments have been voiced by Loh and Stulz (2011) with regard to the analyst report. Their paper has clearly illustrated that the analyst report consists less explanatory type of information, subsequently rendering it insignificant to share price alteration. Furthermore, the reliance on basic valuation techniques in deriving recommendation by dismissing other explanatory information such as qualitative information affects the reliability of target price and the recommendation given (Demirakos et al., 2004).

Although these three papers differ in their viewpoint which claim that fundamental information and heavy reliance on statistical properties lead to a less robust prediction of stock prices, the present literature shows an interesting outcome. The research done by Maditinos et al. (2007) in the context of Greek investors found that a majority of both retail and institutional investors tend to rely on media announcements, analyst reports as well as market rumors in making investment decisions. The study also revealed that

institutional investors would go beyond looking at fundamental and technical analysis in making more concrete justification for the investment. Similar to Maditinos et al. (2007), Tijjani et al. (2009) used the same method of employing interview analysis among brokers, institutional investors, and retail investors. They found that fundamental information were preferable and favoured by investors rather than qualitative and technical factors when referring to any announcement in the analyst report or other media releases. Mostly, they prefer to look at the price to earnings ratio, book value, dividend discount model, and free cash flow to estimate the value of a company's shares. Almuhamed et al. (2013) interviewed 16 investors comprising of institutional investors and retail investors with regard to investment decision, and found that a majority of them preferred to look or refer to fundamental information with regard to the company that they want to invest in. The authors argued that fundamental analysis was able to predict the long-term performance of a company, whereas technical indicators were able to observe the short-term performance of the company.

Sometimes, analysts' overreaction towards good news is reasonable when the risk is high and this should not be treated as psychological biasness. A stock's risk factor differs across various stocks and this information is incorporated in stocks that have lower risk rather than the prices of higher risk stocks. In addition, if any biased expectation occurs in the price of stocks due to investors' attitude, future earnings will subsequently be corrected even faster if the stocks have lower risk as compared to those stocks with higher risk (Gu & Xue, 2007).

Similarly, Zhang (2006) argues that stocks with high information volatility tend to have higher expected returns and upward revision. This suggests that the information is slowly incorporated in the stock price when the risk is very high. This assumption is clearly consistent with the under-reaction hypothesis. However, one of the reasons analysts simply come out with a typical return is because they do not incorporate some financial or accounting information and trading strategies (Abarnell & Bushee, 1998).

Following the argument by Zhang (2006), Altinkilic and Hansen (2009) objected to the idea that analyst reports represent a good source of intermediary information to investors. They substantiated this justification by conducting a study on intraday trading and analyst recommendation, and found that most of the information contained in the reports lagged behind as there were thousands of other information that could indirectly affect a company's share price. In finance, this is known as the "piggyback" effect, which means that the report is too slow in capturing market effect and price drift.

From another perspective, the lack of professionalism among analysts influences the derivation of recommended pricing. Their lack of experience will most likely result in poor forecasting and inaccuracy of price recommendation. Less-practicing analysts are likely to be blamed for audacious forecasts, which may simply motivate inexperienced analysts to herd. In addition, time constraints faced by analysts may influence the process of preparing the report, such as working under pressure, and may affect the reliability of the recommendation price (Clarke & Subramaniam, 2006; Hong et al., 2000; Welch, 2000;).

In contrast, analyst forecast accuracy was found to have a positive relationship with the performance and attribution skills of analysts. If the

analyst's performance is relatively good, it thus helps an analyst to perform analytically wisely and professionally, especially in analysing financial statements and economic trend over time. More importantly, the opportunity to set up a good relationship with the inside management enables an analyst to access private and confidential information (Clement, 1999). However, Jacob et al. (1999) disagreed, in which the authors contended in their study that there was no significant relationship between target price accuracy and the experience or attitude of the analyst. Nevertheless, Mohamad and Perry (2015) argued otherwise, in which the authors claimed that investors, especially institutional investors, tend to decide on investing based purely on convenience instead of looking at the quantitative analysis. Concurrently, the authors also found that investment decision was further influenced by economic factors and some other qualitative factors which may influence stock price movement. Masood et al. (2009), on the other hand, postulated that risks faced by managers who are involved in investment are significant due to their experience and personal judgment in using statistical tools in deriving investments.

Most analyst recommendations tend to be biased due to the incentives given by brokerage firms. As mentioned by Lin and McNichols (1998), Michaely and Womack (1999) and Dechow et al. (2010), in general, analysts tend to produce optimistic reports which are biased in order to enjoy higher commissions and business development purposes. In reality, investors absolutely prefer if the analyst fabricates a good report that allows them to enjoy good economic benefits. By employing an experimental type of methodology to explore investor attitude, Hirst et al. (1995) concluded that the information in analyst reports and the characteristics of the analyst and investors themselves may influence investors' decision. Interestingly, the result depicted by Jayeioba and Haron (2016) confirmed that Malaysian investors were likely to make investments based on their own intuition rather than by referring to the analyst report and media announcement. Their decision is mainly influenced by psychological factors as investors herd on the information.

Using word-based analysis, Abrahamson and Amir (1996) found that investors placed higher priority to the statement released by the CEO of a company with regard to company performance, hence enhancing investor confidence. However, this study failed to incorporate the negative aspect of information by focusing on only positive information. Smith and Taffler (2000) reported that the chairman's statement predicted a firm's failure due to investors' perception when the financial risk was high. Such disclosure of information is not available in Malaysia's analyst reports, therefore supporting the point that there is a lack of full information disclosure with regard to firm performance.

The study by Bryan (1997) revealed that information related to financial highlights and management disclosed in the MD&A received more attention among investors in looking at the short-term and future outlook of a company, which could assist them in designing a better investment strategy. However, the disclosure of MD&A is particularly difficult to locate in the Malaysian context, especially when it involves the analyst report. This further adds to the mixed result produced in terms of information disclosure to market players, which is consistent what has been written by Groysberg et al. (2011).

The latest study conducted by Farooq and Hamouda (2016) in India found that firms that had higher synchronicity and covered by analysts resulted in greater price movement. The study also reported that investors placed higher importance to better disclosure together with good institutional ownership when investing in a company as these elements will indicate the company's stability and progression. The study concluded that stocks with large synchronicity received more attention from local as well as foreign investors for investment purpose, which subsequently minimised asymmetric information. Asymmetric information arises when an investor has different and more information than other investors. Basically, in the financial market, information asymmetry happens in individual stocks when an investor possesses the direct and indirect information related to the company. According to Subrahmanyam (1991), it is unlikely for a trader to have market-wide private information. Thus, it is common in the financial market for an investor to know more than other investors.

One simple reason for the existence of asymmetric information is due to the either intentional or unintentional non-disclosure of some information to the investors. Hence, those investors who have access to private information with regard to the company will know more on its future asset value. This will lead the investors to attain better position in making profit compared to those who do not have access to the private information (Eleswarapu et al., 2004). To further elaborate, investors tend to observe the weekend effect on the stock market. According to the literature, investors will usually wait until Monday before investing as the asymmetrical information will be higher on that particular day. The type of information and the degree of information asymmetry will change over time depending on the amount of private information available to investors (Easley and O'Hara, 1987). To measure asymmetric information, the market to book value ratio is used as it reflects the difference between a company's value and asset. The market to book value measures the value of future investment opportunities available to the company. Thus, as the market to book value increases, there will be a greater presence of asymmetric information (McLaughlin et al., 1998).

Zuo (2016), on the other hand, totally disagrees with the Farooq and Hamouda. The author argued that investors who have access to private information tend to receive consistent profit compared to those who had greater accessibility towards information disclosed in the analyst report. It was argued that the probability in making return via private information led to a magnitude of contemporaneous stock returns. The study concluded that if analysts had accessibility in the private information related to the company, the forecast accuracy would be higher in terms of earnings forecast and target price, thus benefitting investors. This conclusion was driven by analysing 15,977 management forecast revisions involving a time span between 1996 and 2010 based on the US market.

From a different perspective, Zhu and Niu (2016) aimed to investigate the impact of investors' sentiment and accounting information in the analyst report towards stock prices based on residual income model. Using China's market as the main sample, the study found that both variables, namely investors' sentiment and accounting information in the analyst report influenced stock prices. Although the authors argued that both variables were strong in detecting stock returns, but in terms of reliability, accounting information such as target price, earnings forecast, volume and others that

relate to the company's fundamental highlights were more reliable and accurate compared to investors who were negatively influenced by asymmetric information.

The most recent study by Chiao et al. (2017) showed findings favouring the outcome for analyst report. The authors postulated that individual investors' responsiveness was higher when using analyst report in making investment decisions. The responsiveness tended to be aggressive depending on the information disclosed in the report. When there were changes or transitions in the analyst report such as earnings forecast revision and target price revision, the stock triggered was much higher. This outcome shows how important is information disclosure in the report. In addition, other factors that individual investors placed higher priority on such as television appearances or media influences were not usually covered in the analyst report.

The vast number of literature has revealed mixed results concerning the analyst report and share prices. However, a majority of the research explicitly justified their findings through quantitative analysis alone in explaining the issues related to informational content and the analytical aspects in the report, henceforth dismissing the qualitative factors. With this gap and lack of initiative, the current study is motivated to undertake an in-depth analysis on the issues pertaining to analyst recommendations and how to address those arising issues from an institutional investor's point of view via a qualitative approach.

3. Methodology

A qualitative research design was employed in this research to achieve the research objective in a comprehensive way. Qualitative approach was used due to the relatively new nature of the questions developed in this study. It was expected that some important issues in the field of investment analysis would be revealed. In addition, expert knowledge was required in answering the questions developed in this study. Due to the factors mentioned, the qualitative research design was selected and implemented in this research.

To carry on with the research, this particular study uses a semi-structured face-to-face interview approach. A semi-structured interview technique is used in order to investigate the research questions because it is expected to better enhance readers' understanding on certain information derived from individual respondent's own experiences, knowledge, and skill. This method is also believed to minimise the element of biasness, and the reliability of the answers given by the respondents is maintained as the answers are driven by the individuals based on their own feelings and perspectives. The employment of this technique is expected to easily materialise the interview findings to produce impactful results. The selection of sample for this study is based on judgemental sampling. The selected respondents are those who actually use and read the analyst report when making an investment decision. The final number of the respondents are six in total. Polit et al. (2010) recommend the use of fewer than ten respondents for interview purposes in order to allow for a detailed exploration of the subject matter.

The study's respondents consist institutional investors, retail investors, and academics with wide experience in trading stocks. Some even have own investment consultancy firms. Respondents with at least 10 years' experience

and above were selected as the study believes that their understanding and perception with regard to the analyst report will make the study's findings more robust. Additionally, in the discussion of analysis, direct quotations from the respondents are included to maintain the solidity and consistency of the answers. Each interviewee is labelled from E1 to E6 to maintain confidentiality. Table 1 provides a description of the respondents.

As mentioned, this study adopts a semi-structured interview for analysis purpose. Prior to actual to the actual interview, there was a rigorous in-depth discussion of the research objectives and formulation of the interview questions. The interview sessions include noting, for example, the number of questions, details of the interviewees and their professional position, with date and time clearly specified and disclosed.

Table 1: Interviewees' profiles

No.	Investment Bank / Analyst Firm	Position	Code
1	TA Securities	Institutional Investor and Academic	E1
2	Kenanga Investment	Institutional Investor	E2
3	Maybank Investment	Retail Investor and academic	E3
4	Hong Leong Investment	Institutional Investor	E4
5	JApex Securities	Retail Investor	E5
6	Own Investment Consultancy Firms	Senior Analyst	E6

Note: This table shows the profile of the interviewees in terms of analyst firm and position.

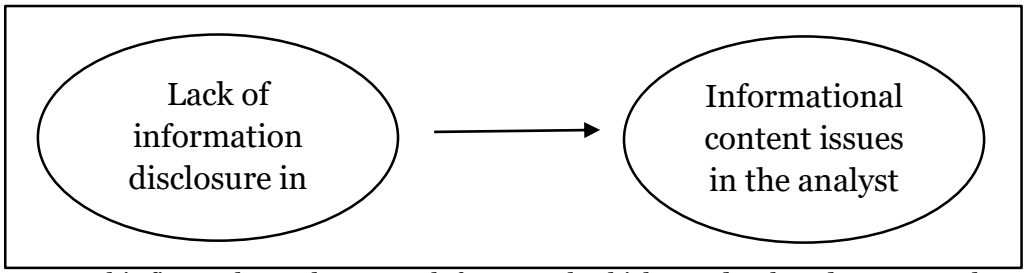
As defined by Braun and Clarke (2006), content analysis is a research technique used to organise large amounts of textual data into standardised formats which allows the study to arrive at suggestions or conclusions. There are six steps involved in performing the thematic content analysis. Firstly, upon ending the semi-structured interview, the data is transcribed verbatim by the interviewer for proper coding. Secondly, initial code is selected to represent any interesting features that occur throughout the entire data set. Thirdly, the interviewer collects codes into potential themes. Fourthly, the themes are reviewed in conjunction with their coded extracts and with the entire data set. In the fifth step, each theme is defined and named. The last step is to write out a description of each theme. Once the transcription is completed, the in-depth analysis will allow the interviewer to identify major themes. In the context of this research, two major themes are derived. The first theme concerns the respondents' opinion on the issue of quantitative analysis carried out in the analyst report and their subsequent recommendation to solve the problem. The next theme touches upon informational content issues and the proposed solution for the issues highlighted. The themes identified are presented in Table 2.

Table 2: Categorical themes and major interview questions.

Categorical themes	Interview questions
Quantitative analysis in the analyst report.	Are analyst reports mainly relying on statistical properties alone when it comes to stock recommendation? What is your view with regard to this issue? Are there any other information that can be applied?
Informational content issue in the analyst report	In your opinion, what could be the informational content issues in recommendation decision? Is the information underprovided? Is there a solution to this issue?

Note: This table shows the categorical themes and the interview questions used in this research.

In answering the research question based on literature evidence, the following research framework was developed to meet the research objective:



Note: This figure shows the research framework which was developed to answer the research questions.

Figure 2: Research framework.

4. Findings and Discussions

After collecting data from the semi-structured interviews, data collected were divided in the analysis based on the answers given by the respondents. Hence, to get a clearer picture, the analysis was divided into three themes in order to critically answer the research questions. The first theme touches upon the respondents' opinion on the issues of quantitative analysis in the analyst report to postulate recommendations. This is followed by the second theme on informational content issues and the proposed solution for the identified issues.

4.1 Issues on Quantitative Analysis Used in the Analyst Report and Proposed Solutions

From the interview result, most of the respondents believed that analysts relied on general quantitative analyses and likely to use common analytical tools in their reports. As such, the reliability of such report was questionable as it might be too simplistic in providing investors with adequate information for an investment decision making. In addition, another issue identified was the limited angle provided in the report, which was unidimensional and

quantitative in nature. This created a major problem in the analyst report and further caused dissatisfaction among the respondents. A respondent stated;

"I think it is very straightforward… it is very clear that most of the reports are focusing their analysis based on one angle only which is fundamental analysis."

Critically speaking, the reliance on quantitative or basic analysis may be warranted because of the pressure placed on analysts. For example, respondent **E1** argued that the analyst's working environment may be subject to this issue as an analyst's work hour is very arduous and he/she may be over-pressured by the firm's top management. In this instance, the requirement to publish one or three reports per day definitely affects the share price derivation process as the analyst resorts to perfunctorily glossing over common analysis to make share price predictions and to support the recommendation given in order to fulfil his/her workload requirement. The same result was also postulated by Demirakos et al. (2004).

A statement by respondent **E1 (*Institutional Investor and Academic*)** goes as such;

"Very strict, too many commitments and time constraint where they need to solve within a day… For example, sometimes they need to prepare about 3 to 4 reports in a day to meet upper management requirement."

Interestingly, not all respondents viewed the basic analysis as a disadvantage. One respondent believed that the current quantitative analysis used by analysts at present was sufficient as long as it was able to provide indicative prognostications about the future value of the investment. Moreover, according to the same respondent, readily available information about the company, current investment activities by of the company, etc. on available sources made it possible for investors to get the necessary information about the company. However, the future value of the company may not be easily obtained by investors. Hence, in order to get those kinds of information, investors had to look at analyst reports. The respondent said;

"The reason why they emphasise quantitative analysis is because the price that they derive is for forward valuation that covers at least 5 to 10 years… An investor will know past information and current information, but will not know the future information. That's why they have to rely on analyst report as it projects the price by taking into future risk and expected profit." **(E6, *Senior Analyst*)**

In relation to the matter of employing a quantitative analysis in order to derive recommendation, the respondents claimed that only some analyses were problematic. Fogarty and Rogers (2005), for instance, questioned about the analysts' working environment. From their findings, it was very clear that analysts tend to rely on historical information in predicting share prices as they believe that past scenarios will be repeated in the future. Respondent **E2 *(Institutional Investor)*** noted,

"However, you must know that the disclosures of various quantitative information in the report are derived from historical value which may not be able to give indicative information as the investment market is quite dynamic."

The respondents argued that when analysts prepare their reports, they must use the most reliable method and the method must be fruitful, in which it must bring about economic benefits to investors. The common general view with regard to this matter was as such;

"For instance, the target price of stocks derived using dividend discount model, P/E ratio or earnings per share or other methods is subject to many assumptions. Simple ratio can be used as guidance but may not be a fruitful method."

This response is consistent with Block (1999), in which the author found that analysts rarely used the most sophisticated method in deriving share prices, but resorted to the use of basic valuations due to their familiarity with the method and the ease in use, which subsequently determined their choices without taking into account the issues attached to the methods.

Along with the alternative or possible solutions to these issues, most of the respondents highlighted that technical analysis would be better if it could be incorporated in the analyst report in order to help investors make a wise investment decision. Investors should not just look at one angle of the analysis in deciding whether to invest or not, but at the same time they should consider to look at the technical analysis such as candlestick and bar charts, cup and handle patterns, recurring historical themes, momentum, money flow indices, relative strength indices, Elliott three-wave movement principles, moving average, stochastic, oscillator indicators, Bollinger bands, so on and so forth in further validating their decision to invest or otherwise.
The respondents narrated;

"I think it can be acceptable but I would say if they are able to incorporate technical stuff such as Momentum, Moving Averages, Stochastic frontiers etc., I believe the analyst report will become a comprehensive report." **(E2, *Institutional Investor*)**

"I guess, the analysts should consider using technical analysis as it is time consuming but requires a strong foundation to master and not easy to learn, especially the Candlestick analysis. I would say the combination of both will always produce a better outcome." **(E3, *Retail Investor and Academic*)**

"There are other methods that can be really helpful to the investors such as technical analysis and the Fama model etc… I still prefer technical analysis for short term and long term investments." **(E5, *Retail Investor*)**

Given the answers by the respondents, the next emerging issue was whether analysts were ready to make use of technical analysis in their reports or not. Here, again the role of the management is crucial in providing training sessions on technical analysis and to motivate analysts to adapt changes in their delivery of reports. In addition, flexibility in terms of working hours is

also very important in order for analysts to come up with a comprehensive analyst report, and that the management should not over-pressure them as well.

In contrast, two respondents disagreed on the importance of technical analysis. Instead, the two respondents, who were firm believers, shared their views on the importance of fundamental analysis such as Altman Z-score, ratio analysis, cross sectional analysis etc., in which they believe was good enough to furnish the analyst report. They suggested that analysts should incorporate fundamental analysis in helping investors enjoy good economic benefits.

A respondent stated that;

"I would say that they at least need to use some sophisticated ways which can differ from the information that are already available in the analyst report such as return analysis using Carhart model, Fama model, Beta coefficient, etc… If possible, the analysts can use some cross sectional analysis of earnings to see the effect of other market movement and its relationship with the Malaysian market, like US and Malaysia – if the Federal changes its Treasury bills rate, what would be the outcome to Malaysia's market?" **(E1, *Institutional Investor and Academic*)**

More or less similar account was revealed by Kerl (2011). By using regression analysis, the author postulated that one of the main factors that explained the accuracy of target price was the level of details explained in the analyst report, which was found to have a positive relationship with the target price accuracy. Examples of details include price to book value, market value, investment activities, size of the company, and others.

In summary, it can be clearly seen that a majority of the respondents concluded that the analytical tools used by analysts in their reports were still inadequate in justifying investment decisions. Therefore, as suggested by the respondents, there is a need to incorporate other techniques or modelling such as technical analysis in the process of deriving recommendation, which will subsequently help investors in making good investment decisions.

4.2 Issues on Informational Content and Proposed Solutions

A majority of the respondents agreed that analyst reports contained severe issues with regard to informational content, due to the fact that the majority simply relied on quantitative analysis, subsequently missing qualitative factors that might be significant. Fundamentally speaking, most of the investors in the market practice active investment strategies, in which investors try to find the best stocks which offer superior return-risk trade-off (Jones, 2014). Hence, if the investor relies only on analyst reports that purely involve statistical analysis, there is less possibility for the investor to find the best stocks. To put it simply, analyst reports are lacking in terms of the full decisive context and economic incentives that affect share prices.

According to the respondents;

"Yes, there are issues of informational content particularly the absence of qualitative information… I suggest that some information can be

incorporated in analysts' report such as economy analysis and industry analysis." **(E1, *Institutional Investor and Academic*)**

"Yes, there are issues related to informational content. Looking at the sample report, not all information related to the company is disclosed properly in the analyst's report." **(E4, *Institutional Investor*)**

"The focus on qualitative factors is clearly absence from the report." **(E5, *Retail Investor*)**

Most of the respondents expressed that analyst reports had room for improvements, especially in adopting qualitative factors for a more comprehensive report. A few of the respondents provided examples of qualitative information that can be incorporated, and this was not limited to industry competiveness, environmental effects, corporate governance, business model, and economic outlook. They argued that letting investors know all of these information will increase the confidence level of the investors and encourage them to invest. It will also attract more local and foreign investors to invest in Malaysia and subsequently enhance the liquidity level in the Malaysian financial market. A typical suggestion was;

"Let the investor know in details about the company from A to Z… Analysis such as competitiveness, corporate governance, industry life cycle and business cycle and so forth must be disclosed to the investor. If possible, some economic information must be disclosed as well especially the relationship of company share price with the economic movement… Emphasising on full disclosure of information is very important."

Similarly, Franco and Hope (2011) asserted that full disclosure of information helped investors to maximise their capital gain. In their study using about 2,178 recommended firms by top fifteen brokerage houses, they found that there was a strong and significant relationship between stock price and analyst notes, and the result seemed to hold even after taking into account some qualitative factors such as management quality, press releases, conference calls, investment activities, etc.

Interestingly, one of the respondents addressed the issue concerning MD&A, which was not mentioned by the other respondents. The respondent argued that the MD&A report provided an outlook about a company's progression and most importantly, it included key statements from the chairman and senior management that may help increase the confidence level among investors in making an investment, as the statement came from the chairman's word of mouth. The respondent explained that the U.S. has already practiced this feature, but Malaysia has yet to do the same. Even though such information can be disclosed in the financial report's in-depth detailing, the respondent argued that it must be incorporated in the analyst report as well. According to the respondent;

"The analysts' report should incorporate MD&A analysis (Management Discussion and Analysis Report) …to access the qualitative determinants of the company share price." **(E3, *Retail Investor and Academic*)**

Since the MD&A provides comprehensive information about the company's past performance and future prospects, such is thus very important for the purpose of disclosure. Existing studies proved that investors tend to value the available information in the MD&A and use that as a benchmark when making an investment. According to Rogers and Grant (1997), most financial analyst reports in the USA, especially sell side information, incorporated MD&A and investors made use of it. Furthermore, Clarkson et al. (1999) revealed that MD&A provided further informational content to the investors and significantly influenced the decision of Canadian sell-side analysts. However, Bryan (1997) argued that though the MD&A held good predictive ability on informational content, the information tends to vary as it depended on the company's business characteristics, uniqueness, competitiveness, and so on. Hence, to make this a reality in Malaysia, the role of the Malaysian Securities Commission is very important in encouraging brokerage and security firms to incorporate MD&A in their recommendation reports. Of course, good workshop or training by the Securities Commission is needed in this case in order to create awareness in relation to the importance of MD&A analysis among analysts.

In contrast, one of the respondents believed that analysts should strictly incorporate information about the company's quality in terms of top management such as leadership, as it would reflect a realistic image towards the company's stability. The respondent argued that the management's good leadership would reflect the company's share price positively, and this would help push the company's share price on a long-term basis and subsequently attract more investors to invest in the company. The respondent reasoned;

"The details of ownership can be found from financial report or analyst's report but how about the leadership value of the director? This kind of information would not be available at all in the analyst's report… All these elements will affect directly or indirectly the company share price." **(E4, *Institutional Investor*)**

Similarly, in a study conducted by Groysberg et al. (2011), the researchers disputed that analysts should incorporate qualitative factors such as innovativeness, low-price strategy, corporate culture, quality of top management, and others. Interestingly, the authors maintained that the strongest determinant of a buy or sell recommendation was projected industry growth, followed by the quality of the top management team, which would share prices in one way or another. In the context of Malaysia, more research needs to be done in order to capture the leadership strength and quality of the top management statistically.

In summary, from the above discussions, the respondents have clearly ranged their ideas differently, reaching from very wide to specific perspectives. Mostly, their argument or standpoint was to incorporate qualitative factors in the analyst report. In other words, the coverage of analysis should focus on two angles: quantitative and qualitative, both of which ought to be employed on available spectrum of information to come up with recommendation.

5. Conclusion

From the above discussion, it is very clear that the major issue attached with the analyst report is its full reliance on quantitative analysis which limits the disclosure of full information related to a company. As qualitative factors are distinctly absent from the analysis, this in turn directly affect the analysis. Hence, this paper concludes that analysts should consider incorporating both quantitative and qualitative information which will lead to full disclosure as the analyst report continues to constitute a salient agent in the investors' decision- making repertoire.

Basically, the respondents suggested that in order to improve the analytical part of the analyst report, analysts should combine both fundamental and technical analysis in order to produce a comprehensive report (as a part of quantitative analysis) instead of just relying on basic analysis. On top of that, to add value to the informational content coverage, the respondents suggested the incorporation of information such as industry competitiveness, corporate governance, economic outlook, MD&A, leadership, and other relevant information to assist superior decision-making investors.

Furthermore, this study has revealed some fruitful suggestions derived from the respondents in improving the Malaysian financial market and to encourage more investors to invest in Malaysia. This is to help further accelerate the Malaysian economic growth and to contribute to the multiplier effects. One of the suggestions given revolved market transparency, in which the market should be transparent with all available information that investors should be made aware of. This was followed by liberalisation in rules and regulations in order to allure more institutional investors to invest in Malaysia, which will, of course, increase the number of players in the market since the Malaysian market, despite being an attractive frontier market, is still relatively small in stature. Such changes will positively impact the market quality through ameliorated liquidity spreads, overall market breadth, and depth.

One of the limitations of this study concerns the number of respondents, which was only a mere six respondents. In order to produce a more significant result in the future, a higher number of respondents should be incorporated. If possible, future research should incorporate a more robust type of analysis by focusing on diverse types of groups of respondents, as this paper simply focused on information derived from institutional investors. Furthermore, though this study's scope and depth are stunted by time constraints, it is defrayed considerably with the help of meticulous time management technique. Nonetheless, this paper propounds a more in-depth study with a higher number of respondents, and a multitude of complex models to be undertaken on this topic in future given the enormity of its practical consequences towards investor welfare, market quality, and on outright ethical grounds.

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