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Author(s): Hemang Desai and Prem C. Jain

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An Analysis of the Recommendations of the “Superstar” Money Managers at Barron’s Annual Roundtable

HEMANG DESAI and PREM C. JAIN*

ABSTRACT

We examine the performance of common stock recommendations made by prominent money managers at *Barron’s* Annual Roundtable from 1968 to 1991. To avoid survivorship bias, we examine the performance of recommendations by all the participants. The buy recommendations earn significant abnormal returns of 1.91 percent from the recommendation day to the publication day, a period of about 14 days. However, the abnormal returns are essentially zero for one to three year postpublication day holding periods. Thus, an individual investing according to the Roundtable recommendations published in *Barron’s* would not benefit from the advice.

EVER SINCE COWLES (1933), considerable empirical work has been undertaken to analyze the performance of mutual fund managers (Jensen (1968)), brokerage houses (Groth et al. (1979), and Bjerring, Lakonishok, and Vermaelen (1983)), pension fund managers (Lakonishok, Shleifer, and Vishny (1992b)) and others. The results mostly support the hypothesis that money managers on average do not outperform passive benchmarks.¹

The evidence that on average money managers are unable to outperform the market does not imply that there are no “superstar” money managers with superior skills. However, even if such “superstar” money managers exist, it is difficult to identify them, as data for a large number of years are needed for a reliable statistical analysis.²

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¹ Shukla and Trczinka (1992) in a review paper conclude that even after two hundred published studies, Jensen’s conclusion that mutual fund managers, on average, underperform passive benchmarks is generally valid.

² We borrow the following example from Chan and Lakonishok (1993) to illustrate our point. If a money manager outperforms a benchmark by 2 percent per year and if the tracking error is 5 percent per year (which is below the median for active managers based on the SEI universe of equity managers), then we would need twenty-five years of data before we could reject the null hypothesis that the performance of the manager is no better than the benchmark.

Some recent studies document that funds performing well in earlier years also perform well in later years (e.g., Grinblatt and Titman (1992), Hendricks, Patel, and Zeckhauser (1993), and Goetzmann and Ibbotson (1994)). However, their findings are controversial because their samples suffer from survivorship bias (Brown et al. (1992)). These samples do not include all funds in existence every year and therefore give too much importance to surviving funds. Malkiel (1995) avoids survivorship bias by examining all equity mutual funds existing each year from 1971 to 1991 and concludes that survivorship bias appears to be more important than other studies have estimated. He shows that the evidence of predictability of mutual fund returns from period to period is not robust and that the mutual fund managers do not outperform the market in general.

Another problem with many performance studies is that they reflect the performance of organizations such as mutual funds, pension funds, or brokerage houses rather than that of individual money managers. However, over time there are many personnel changes in these organizations (*The Wall Street Journal*, May 27, 1994). Thus, fund performance data do not necessarily reflect the performance of a single individual. Also, many successful money managers do not manage publicly traded mutual funds. For example, Jim Rogers, although he has managed others' money in the past, now refers to himself as a private investor, and Marc Perkins, a highly successful money manager, manages money for private clients. As a result, the performance of these money managers is difficult to evaluate since data on their performance are not readily available.

In this study, we analyze the performance of the money managers who participate in *Barron's* Annual Roundtable. *Barron's* invites a group of eight to twelve successful and reputed money managers every year to the Roundtable. The participants include mutual fund managers, stock analysts, proprietors of private money management firms, and successful private investors. *Barron's* refers to them as the "Wall Street Superstars," since the participants are generally acknowledged to be among the best in the business. As Peter Lynch mentions in his book *Beating the Street* (1993), much attention is devoted to the Roundtable.

There are a number of advantages in analyzing this sample. First, the participants examined are clearly well known. If research was to be conducted on the recommendations of a group with established reputation, it would be difficult to come up with a group with more prominent names. Second, instead of identifying superior performers through analyzing prior period data that are generally not available for a large number of years, we rely on *Barron's* selection. Third, since we examine the recommendations of all the participants, we avoid the potential biases introduced from considering only currently surviving managers. Finally, the Roundtable allows us to analyze the performance of individual money managers for whom reliable data are not readily available otherwise.

We find that 1599 buy recommendations earn significant size-adjusted abnormal returns of 1.91 percent from the day the stocks are recommended on

the meeting day until they are published in *Barron's*, a period of approximately 14 days. The abnormal returns after the publication day, however, are essentially zero for all the holding periods examined. For example, for a 250-day holding period, the average abnormal returns are only 0.21 percent. Thus, an individual investing according to the recommendations of the prominent money managers at *Barron's* Roundtable would not benefit from the advice. We conclude that the so-called "superstars," on average, do not seem to possess superior skills in recommending stocks.³ We also examine the performance of individual participants. Two of the participants exhibit superior skills in recommending stocks when we use parametric *t*-tests, but the nonparametric binomial tests do not support the results of the parametric tests. Thus, if there are only a few superstar money managers, it is very difficult to identify them with a reasonable level of confidence.

The rest of the article is organized as follows. Section I discusses the sample used. Section II describes the size-adjusted abnormal returns methodology used for performance analysis. Section III presents the results of the stock market performance of the buy and the sell recommendations and also the results for individual participants. A brief discussion of an analysis by size quartiles is also presented. Section IV concludes.

I. Data

A. Sample Selection

Barron's Annual Roundtable meets once a year, in late December or early January, and participation is by invitation only. Many of the same participants are invited year after year. For instance, John Neff has participated seventeen times, Walter Mintz fourteen times, and Mario Gabelli twelve times. The Roundtable begins with a discussion on the outlook of the economy and the financial markets. The participants then recommend their "buys" and "sells."⁴ Each participant also briefly discusses the reasons for picking the stocks.⁵ The recommendations are not made public until they are published, which occurs one to three weeks following the meeting. We carefully read all the relevant

³ A few studies that are also free from survivorship bias find that certain recommendations of brokerage houses show superior performance (e.g., Groth et al. (1978), Bjerring et al. (1983), Elton et al. (1986), and Womack (1994)). However, our study differs from the above in at least two respects. First, we concentrate on the performance of well known individuals rather than on that of an organization such as a brokerage house. Second, the above studies analyze the recommendations made over a relatively short period of time, from about two years to seven years. Since we use data over twenty-four years, our results are less likely to be period-specific.

⁴ The panel included economists Jay Levy and Ann Mills, who did not recommend any stocks. Paul Tudor Jones also did not recommend stocks, but talked about futures and commodities.

⁵ Most participants justify their recommendations using both fundamental and technical analysis. Thus, it is difficult to classify the participants as either fundamental or technical analysts with any degree of confidence. Only Joe Granville and Frankie Joe may be classified strictly as technical analysts.

issues of *Barron's* to identify the recommendations.⁶ We examine the performance of the common stock recommendations made at the Roundtable, from its inception in 1968 through 1991.

The initial sample consists of 2083 common stock recommendations. A total of 332 stocks from the initial sample are not available on the Center for Research in Security Prices (CRSP) tapes, primarily because they are foreign stocks not trading in the United States or are pink sheet stocks not trading on any of the organized exchanges. These stocks are not included in the analysis. The final sample consists of 1751 recommendations for which returns data are available on the CRSP tapes. About ninety-one percent of the sample comprises buy recommendations (1599) and the remaining nine percent are sell recommendations (152). The number of distinct (i.e., not counting repeat appearances) participants who made the recommendations is 65. The average (median) number of stocks per participant for all the Roundtable years is 26.9 (7) with a maximum of 534 and a minimum of one.

B. Matching Firm Selection

For each sample firm we identify four matching firms that are closest in market value to the sample firm, two with market values larger than that of the sample firm and the other two with market values smaller than that of the sample firm. Market value is defined as the average market capitalization of the firm's outstanding common equity from day -10 to day -6 relative to the Roundtable meeting date. We do not allow a sample firm to be a matching firm in the year of its recommendation.

From the two closest matching firms (one larger and one smaller), we randomly designate one of them as the first matching firm. The other firm is designated as the second matching firm. Similarly, we designate the remaining two matching firms as the third and the fourth matching firms. To begin, we use the first matching firm's returns as the benchmark against which we compare the performance of the sample firm. If the first matching firm disappears from the tape for some reason, we use that firm's returns until its last day. After that day, we use the second matching firm's returns, and so on. This procedure guarantees that the matching firms are picked at the same time as the sample firms and avoids the potential survivorship bias in the matching firms.

Table I presents the distribution of the buy and sell recommendations of those participants who recommended a total of at least fifty stocks over the years; the rest are grouped together. Note that the participants primarily recommend "buys" (1599). The sell recommendations are infrequent (152).

⁶ While the participants' recommendations are clear in most cases, we do not include a stock in our analysis if there is vagueness in the recommendation. For example, in 1983 Jim Rogers said, "I own a lot of manufactured housing stocks but I would hate to recommend them, as they have been going through the roof." He then named these stocks, but we do not include them in our initial sample.

Table I
Number of Buy and Sell Recommendations at Barron's Annual Roundtable from 1968 to 1991

The recommendations of the participants with less than fifty stocks are presented as a group. Since the number of recommendations from 1968 to 1985 is relatively few, they are presented in sets of three years.

	1968– 1970	1971– 1973	1974– 1976	1977– 1979	1980– 1982	1983– 1985	1986	1987	1988	1989	1990	1991	Total
Panel A: Buy Recommendations													
M. Gabelli	0	0	0	0	26	32	7	16	12	18	16	19	146
P. Lynch	0	0	0	0	0	0	79	181	119	82	54	19	534
A. MacAllaster	0	0	0	0	3	11	5	10	11	7	10	8	65
C. Maxwell	0	0	34	14	17	5	0	0	0	0	0	0	70
W. Mintz	2	17	22	17	15	15	6	0	0	0	0	0	94
J. Neff	0	3	6	30	11	15	3	6	7	5	5	5	96
J. Rogers	0	0	0	0	0	14	7	9	9	6	10	0	55
All Others	82	103	61	69	53	36	11	23	26	26	23	26	539
Total	84	123	123	130	125	128	118	245	184	144	118	77	1599
Panel B: Sell Recommendations													
M. Gabelli	0	0	0	0	2	0	0	0	1	0	0	0	3
P. Lynch	0	0	0	0	0	0	0	0	0	0	0	0	0
A. MacAllaster	0	0	0	0	0	0	0	0	0	0	0	0	0
C. Maxwell	0	0	0	0	0	0	0	0	0	0	0	0	0
W. Mintz	0	0	0	2	2	0	0	0	0	0	0	0	4
J. Neff	0	2	0	1	0	0	0	0	0	0	0	0	3
J. Rogers	0	0	0	0	0	9	2	5	2	5	7	0	30
All Others	13	15	10	5	29	31	0	1	2	0	1	5	112
Total	13	17	10	8	33	40	2	6	5	5	8	5	152

Table II presents some summary statistics for the sample firms and for the matching firms. The median (mean) market value of the buy recommendations is \$512.0 (\$2253.7) million, and the median (mean) market value of the sell recommendations is \$775.9 (\$3065.0) million. The median decile for firm size of the sample firms is eight.⁷ This indicates that the recommendations predominantly comprise large firms. The median beta of the buy (sell) recommendations is 1.13 (1.25) and that of their matching firms is 1.01 (0.96).⁸ While the median beta for the firms in the sample appears to be larger than the median beta for the matching firms, the standard deviation of daily returns for the two groups is about the same.

⁷ The deciles are assigned by using the NYSE/AMEX universe of firms. Decile one corresponds to the smallest firms and decile ten corresponds to the largest firms.

⁸ Beta is the Scholes-Williams (1977) beta (with respect to the CRSP value-weighted index) estimated from day -230 to day -31 relative to *Barron's* Roundtable meeting date.

Table II
Summary Statistics for the Sample Firms and their
Matching Firms

Market Value is defined as the average market value of the common equity of the firm from day-10 to day-6 relative to the meeting day (the day the Roundtable meets and the recommendations are made). Standard deviation of returns is the sample standard deviation of the daily common stock returns, and beta is the Scholes-Williams beta estimated from a regression of the daily common stock returns on the CRSP value-weighted index, both estimated over a period of 200 days from day-230 to day-31 relative to the meeting day. Since we require at least fifty daily returns to estimate beta and the standard deviation, the number of observations is somewhat reduced.

	No. of Observations	Mean	Median
Panel A: Sample Firms			
Market value (in millions of dollars)			
Buy recs.	1599	2253.7	512.0
Sell recs.	152	3065.0	775.9
Standard deviation of daily returns (in percent)			
Buy recs.	1559	2.24	2.03
Sell recs.	148	2.47	2.23
Beta			
Buy recs.	1559	1.22	1.13
Sell recs.	148	1.33	1.25
Panel B: Matching Firms			
Market value (in millions of dollars)			
Buy recs.	1599	1995.3	506.9
Sell recs.	152	2944.5	775.0
Standard deviation of daily returns (in percent)			
Buy recs.	1559	2.17	1.90
Sell recs.	148	2.06	1.75
Beta			
Buy recs.	1559	1.07	1.01
Sell recs.	148	0.98	0.96

II. Methodology

We measure the stock market performance by examining the buy and hold returns. The buy and hold return for a stock i for T days is computed as

$$R_{iT} = \prod_{t=1}^T (1 + r_{it}) - 1.0,$$

where r_{it} is the raw return (with dividends) for stock i on day t . The return for the matching firm is computed in a similar manner and is given by R_{mT} . The

buy and hold abnormal return for stock i is calculated as

$$\text{HAR}_{iT} = R_{iT} - R_{mT}.$$

The abnormal return is then averaged over all the stocks in the sample to obtain the average holding period abnormal return for a portfolio of n stocks and is given by

$$\text{AHAR}_T = \frac{1}{n} \sum_{i=1}^n \text{HAR}_{iT}.$$

The statistical significance of the AHAR_T is determined by using a t -statistic which is computed as

$$t = \frac{\text{AHAR}_T}{\text{SE}_T},$$

where SE_T is the estimated standard error of AHAR_T .

To compute the standard error of the portfolio abnormal returns (SE_T), we use four different estimation procedures as described in the Appendix. Since the results from the four procedures give rise to very similar conclusions, we report t -statistics only by using the second procedure, which accounts for cross-sectional dependence across abnormal returns. In addition, we also use two nonparametric tests that are also described in the Appendix. Since the results are similar across the two nonparametric tests, we report and discuss only one set of results.

If a sample firm is delisted, we compound the sample firm returns as well as the matching firm returns until the day of the last available return. We examine the performance of the recommendations over several holding periods, ranging from 25 days to 750 days. The reason for going as far as 750 days (approximately three years) is motivated by the results presented in a recent article by Lakonishok, Shleifer, and Vishny (1994), who show that during the period 1968 to 1990, value stocks outperformed glamour stocks over holding periods ranging from one to five years. To allow for the possibility that the participants in our study are long term value investors, we compute buy and hold returns beyond one year.

III. Stock Market Performance of the Recommendations

A. Performance of the “Buy” Recommendations

We define the meeting day (MD) as the day on which *Barron’s* Roundtable meets and the stocks are recommended. However, the recommendations are not made public until they are published one to three weeks later. The day the recommendations are published in *Barron’s* is defined as the publication day

Table III
Holding Period Returns for Selected Holding Periods: Buy Recommendations

Holding period raw returns for the sample firms (RAWF), holding period raw returns for the matching firms (RAWMF), holding period abnormal returns (AHAR), *t*-statistic for the AHAR, percentage of positive AHAR (% + ve), and the corresponding *z*-statistic for the buy recommendations made at the Roundtable. MD (Meeting day) is the day the Roundtable convenes and the recommendations are made. PD (Publication day) is the day the recommendations are published in *Barron's*. The study covers twenty-four years from 1968 to 1991. We do not rebalance our portfolio if a sample firm disappears from the tape due to merger or any other reason. Instead we assume that the proceeds are invested in the matching firm. As a result the number of observations are the same for all the post publication holding periods. Note that we examine only the common stock recommendations made by the participants at the Roundtable.

Day	No. of Obs.	RAWF (%)	RAWMF (%)	AHAR (%)	<i>t</i> -Stat.	% + ve	<i>z</i> -Stat.
MD-125 to MD-26	1584	1.67	0.17	1.50	1.18	53.5	2.1**
MD-25 to MD-1	1599	5.66	3.81	1.85	2.84**	56.0	4.4***
MD	1599	-0.01	-0.11	0.10	0.81	48.4	-1.3
MD+1 to PD-1	1599	3.29	2.52	0.77	1.71	52.9	2.2**
PD	1599	1.36	0.33	1.04	5.83***	60.0	7.9***
PD+1 to PD+25	1599	4.56	4.23	0.33	0.49	52.0	1.5
PD+1 to PD+250	1599	12.13	11.93	0.21	0.10	51.0	0.4
PD+1 to PD+500	1599	26.31	26.69	-0.38	-0.10	49.4	-0.2
PD+1 to PD+750	1599	39.99	40.70	-0.71	-0.13	49.3	-0.1

*** Significant at 1 percent level of significance using a two tail test.

** Significant at 5 percent level of significance using a two tail test.

(PD). The average number of trading days from the meeting day to the publication day is 14.

Table III presents the results of the abnormal returns for several intervals for the buy recommendations. An investor who reads the recommendations in *Barron's* and invests accordingly is not likely to participate in the publication day's abnormal returns. The opening price on the publication day (always a Monday) is likely to have incorporated the publication day returns since *Barron's* is available on the newspaper stands over the weekend. Thus, the relevant analysis for the postpublication holding period abnormal returns begins on PD + 1. The abnormal returns from PD + 1 are close to zero for all the holding periods examined. In particular, the buy recommendations earn insignificant abnormal returns of 0.33 percent, 0.21 percent, -0.38 percent, and -0.71 percent for holding periods of 25 days, 250 days, 500 days, and 750 days respectively following the publication day. Not only are the abnormal returns very close to zero, the *t*-statistics for the four different holding periods are between 0.49 and -0.13.

The nonparametric binomial tests yield similar results. In particular, for the 250-day (500-day) holding period, the percentage of recommended stocks with positive abnormal returns is only 51.0 percent (49.4 percent). For the 250-day holding period, if we consider each of the 24 years as one observation, the

abnormal returns are positive for only eight years, and the average abnormal return across the 24 data points is 0.63 percent (not significant). The results for other holding periods are similar.

Since there are no abnormal returns after the publication day, an investor who reads the recommendations in *Barron's* and invests accordingly would not profit from the advice. Overall, our results suggest that, on average, the so-called "superstar" money managers do not seem to possess superior skills in recommending common stocks.

Two additional observations can be made from the information in Table III. First, an examination of the time period immediately prior to the meeting day indicates that the participants are inclined to recommend stocks that have done well in the recent past. In particular, the recommended stocks earn abnormal returns of 1.85 percent (*t*-statistic of 2.84) from MD-25 to MD-1. In addition, they earn 1.5 percent from MD-125 to MD-26, resulting in total abnormal returns of 3.35 percent in the 125 days before the meeting day. The significant abnormal returns before the meeting day are consistent with a trend-chasing behavior (Lakonishok, Shleifer, and Vishny (1992a)).⁹

Second, although a typical investor would not be able to earn above average returns from the recommendations, the market seems to react significantly to the recommendations on the publication day. In particular, the publication day abnormal returns for the buy recommendations are 1.04 percent (*t*-statistic of 5.83). In addition, during the time interval from MD + 1 to PD - 1, the stocks earn 0.77 percent (*t*-statistic of 1.71). Also, the abnormal returns on the meeting day are 0.10 percent. Overall, if the participants were to invest in their own recommendations, they would earn abnormal returns of 1.91 percent from MD to PD. In general, if they were to hold their own portfolios for any of the holding periods starting on the MD, the abnormal returns are about two percent.

There are two interpretations for the abnormal returns of about two percent from MD to PD. First, it may indicate some selection skills on the part of the participants. The market recognizes such skills and adjusts to it on or before the publication day.¹⁰ Even if this were to be attributed to skills on the part of the participants, the magnitude of the abnormal returns may not be large in light of the research and transactions costs needed to earn this. Nevertheless, as indicated earlier, these returns cannot be earned by a reader of *Barron's*. Second, the market may react to the recommendations if the participants are perceived to be experts. In that case, over some future time, the prices would revert to normal. Given the small magnitude of the reaction, the volatility of

⁹ The raw returns in the period from MD-25 to MD-1 for both the sample firms (5.66 percent) and the matching firms (3.81 percent) are large because this period partially overlaps with January each year. Furthermore, raw returns from MD-125 to MD-26 are small because this period spanned both October 1987 and October 1989, when the market earned large negative returns. We examined all our results after deleting two years of data related to October 1987 and October 1989 market declines, and our conclusions are not affected.

¹⁰ The 0.77 percent abnormal returns before the publication day may be attributed to the leakage of the recommendations.

the stock market, and the time period over which the reversal may occur, we may not be able to detect any reversal even if it does take place.¹¹

Since the time period over which the recommendations are studied is long, we examine whether the results are similar in the two twelve year periods covering the first half (1968 to 1979) and the second half (1980 to 1991) of the entire twenty-four years under study. The results are essentially the same for the two subperiods. Specifically, the recommendations earn insignificant abnormal returns of 0.82 percent and -0.04 percent in the two subperiods for the 250-day holding period. The analysis yields similar results for other holding periods. We also examine our results by excluding foreign stocks, and the results are virtually the same.¹²

B. Performance of Individual Money Managers

So far, we have documented that, on average, the published recommendations of the well-known money managers do not exhibit above average performance beyond the publication day. However, there may be a few money managers with superior skills. Also, since the money managers are all well known, it is interesting to examine individual performances. The main shortcoming of such an examination is that the number of stocks recommended and the number of years for individual participants are not large and, therefore, it is very difficult to identify superior *individual* performers even if they exist.

Table IV presents the results for the money managers who have recommended more than 50 stocks during the period of our study. The recommendations of Mario Gabelli and Walter Mintz earn abnormal returns of 8.60 percent (t -statistic of 1.89) and 10.86 percent (t -statistic of 2.07) respectively for the 250-day postpublication holding period. The performance of Mario Gabelli for the 500-day holding period is also impressive (16.36 percent with a t -statistic of 1.99). The performance of Walter Mintz for the 500-day holding day period is 12.89 percent (t -statistic of 1.20). Although not statistically significant, Peter Lynch also shows positive abnormal returns for the 250-day and 500-day holding periods (2.85 percent and 4.61 percent). The other participants reported in Table IV do not exhibit positive abnormal returns for either the 250-day or the 500-day holding periods, and sometimes their recommendations earn large negative (but insignificant) abnormal returns.

The above results indicate that two of the participants may possess superior skills in recommending stocks. However, the evidence should be interpreted with some reservations for the following reasons. First, the nonparametric

¹¹ Barber and Loeffler (1993) and Greene and Smart (1994) analyze recommendations published in the "Dartboard" column of *The Wall Street Journal*. They find that the publication day abnormal returns are reversed in the days immediately following the publication. We do not observe an immediate or a long-term reversal in abnormal returns.

¹² Our final sample includes 33 foreign stocks that trade in the U.S. and are reported on the CRSP tapes. Since the size benchmark may not be appropriate for the foreign stocks, we replicate our analysis by excluding them, and our results are not affected. A stock is defined to be a foreign stock if it is an ADR (American Depositary receipt) or if the CRSP (through the SHRCD item on the tape) indicates that the firm is incorporated in a foreign country.

tests in Table IV do not indicate that the performance is significant. Second, we analyze the performance of each participant by year.¹³ For Mario Gabelli, the abnormal returns for the 250-day holding period are positive in only six of twelve years. For Walter Mintz, the abnormal returns are positive in ten of fourteen years, and the p -value is 0.09. Thus, only Mintz may have superior skills from the perspective of consistent performance in recommending stocks. However, when a number of participants are examined, a few of them are expected to exhibit extreme positive or negative performance by chance, and therefore, true significance levels are lower. Overall, we are unable to conclude that any of the participants has superior skills in recommending stocks. As expected, if there are only a few superstar money managers, it is very difficult to isolate them with a high level of confidence.

C. Performance of the "Sell" Recommendations

The sample size of 152 for the sell recommendations is about 9 percent of the total sample, and therefore, a detailed analysis cannot be performed. Only 24 of the 65 participants recommending stocks make sell recommendations, and only five of them make more than ten recommendations each. Thus, the conclusions from examining the average performance of the sell recommendations are less general than those from the average performance of the buy recommendations.

Table V reports the performance of sell recommendations over several intervals. There are similarities between the results for the buy and the sell recommendations. On the publication day, the sell recommendations earn significant abnormal returns of -1.16 percent (t -statistic of -2.83) which is similar in absolute magnitude to that for the buy recommendations. Furthermore, the sell recommendations experience a negative drift of about two percent (-1.83 percent) in 25 days before the meeting day in a manner similar to the positive drift experienced by the buy recommendations. Thus, for the sell recommendations as well, the participants seem to have been influenced by the performance of the stocks in the recent past.

In the postpublication periods, the sell recommendations earn large negative abnormal returns. On average, they earn abnormal returns of -8.12 percent (t -statistic of -1.80) from PD + 1 to PD + 250. The nonparametric tests also support this conclusion. This result is somewhat puzzling, as it shows that while the participants do not seem to have superior skills in making buy recommendations, they have superior skills in making sell recommendations.¹⁴

¹³ For statistical analysis, we assume that the observations across years are independent and we use binomial distributional assumption to compute significance levels. Thus, under the null hypothesis of no superior skills, the probability of observing positive abnormal returns in any year is 0.5.

¹⁴ We do not analyze the sell recommendations by individual participants as none of the participants recommended more than 30 stocks.

Table IV

Holding Period Returns for Selected Holding Periods for Individual Money Managers: Buy Recommendations

Holding period raw returns for the sample firms (RAWF), holding period raw returns for the matching firms (RAWMF), holding period abnormal returns (AHAR), *t*-statistic for the AHAR, percentage of positive AHAR (% + ve), and the corresponding *z*-statistic for the buy recommendations made at the Roundtable. MD (Meeting day) is the day the Roundtable convenes and the recommendations are made. PD (Publication day) is the day the recommendations are published in *Barron's*. The study covers twenty-four years from 1968 to 1991. We do not rebalance our portfolio if a sample firm disappears from the tape due to merger or any other reason. Instead we assume that the proceeds are invested in the matching firm. As a result, the number of observations is the same for all the post-publication holding periods. Note that we examine only the common stock recommendations made at the Roundtable.

Day	No. of Obs.	RAWF (%)	RAWMF (%)	AHAR (%)	<i>t</i> -Stat.	% + ve	<i>z</i> -Stat.
Panel A: M. Gabelli							
MD-125 to MD-26	146	2.69	0.77	1.92	0.49	55.5	1.2
MD-25 to MD-1	146	5.35	2.52	2.84	2.07**	58.9	2.1**
MD to PD	146	6.75	4.12	2.63	2.57**	61.0	2.6**
PD+1 to PD+25	146	4.00	4.72	-0.72	-0.54	52.7	0.7
PD+1 to PD+250	146	20.56	11.96	8.60	1.89	54.8	1.0
PD+1 to PD+500	146	39.60	23.24	16.36	1.99**	56.2	1.1
PD+1 to PD+750	146	49.51	32.28	17.23	1.60	54.1	0.6
Panel B: P. Lynch							
MD-125 to MD-26	528	-3.54	-2.93	-0.61	-0.31	52.8	1.0
MD-25 to MD-1	534	8.76	6.90	1.86	2.78**	55.1	2.1**
MD to PD	534	3.30	2.08	1.22	1.45	55.2	2.3**
PD+1 to PD+25	534	7.49	6.18	1.31	1.04	56.6	2.7**
PD+1 to PD+250	534	10.25	7.40	2.85	0.83	54.3	1.2
PD+1 to PD+500	534	21.46	16.85	4.61	0.75	51.9	0.3
PD+1 to PD+750	534	35.37	32.54	2.83	0.32	52.4	0.3
Panel C: A. MacAllaster							
MD-125 to MD-26	64	-4.77	-1.64	-3.13	-0.83	54.7	0.7
MD-25 to MD-1	65	3.34	3.95	-0.61	-0.36	52.3	0.4
MD to PD	65	5.38	2.75	2.63	1.45	61.5	1.9
PD+1 to PD+25	65	6.57	7.33	-0.76	-0.38	46.2	-0.6
PD+1 to PD+250	65	15.11	23.75	-8.64	-1.12	50.8	0.1
PD+1 to PD+500	65	30.25	48.08	-17.83	-1.22	43.1	-0.9
PD+1 to PD+750	65	35.29	54.75	-19.46	-1.46	40.0	-1.3
Panel D: C. Maxwell							
MD-125 to MD-26	70	26.13	5.21	20.92	4.46***	74.3	3.9***
MD-25 to MD-1	70	3.56	-5.43	8.99	4.76***	68.6	3.1***
MD to PD	70	2.06	4.19	-2.13	-1.38	45.7	-0.7
PD+1 to PD+25	70	0.61	4.38	-3.77	-1.76	35.7	-2.4**
PD+1 to PD+250	70	11.11	12.30	-1.19	-0.20	51.4	0.2
PD+1 to PD+500	70	37.17	40.76	-3.59	-0.36	38.6	-1.6
PD+1 to PD+750	70	65.24	54.57	10.67	0.64	50.0	0.0

*** Significant at 1 percent level of significance using a two tail test.

** Significant at 5 percent level of significance using a two tail test.

Table IV—Continued

Day	No. of Obs.	RAWF (%)	RAWMF (%)	AHAR (%)	<i>t</i> -Stat.	% +ve	<i>z</i> -Stat.
Panel E: W. Mintz							
MD-125 to MD-26	93	10.32	2.42	7.91	2.81**	63.4	2.6**
MD-25 to MD-1	94	6.16	2.57	3.59	2.40**	59.6	1.8
MD to PD	94	7.91	4.07	3.84	3.04***	61.7	2.3**
PD+1 to PD+25	94	3.68	3.46	0.23	0.12	54.3	0.8
PD+1 to PD+250	94	25.92	15.05	10.86	2.07**	57.5	1.4
PD+1 to PD+500	94	47.31	34.42	12.89	1.20	52.1	0.3
PD+1 to PD+750	94	55.99	43.15	12.84	0.98	52.1	0.3
Panel F: J. Neff							
MD-125 to MD-26	95	-2.75	1.78	-4.53	-1.77	38.9	-2.1**
MD-25 to MD-1	96	4.08	5.32	-1.25	-1.10	50.0	0.0
MD to PD	96	5.69	2.16	3.53	3.64***	65.6	3.1***
PD+1 to PD+25	96	2.27	2.67	-0.40	-0.29	52.1	-0.4
PD+1 to PD+250	96	12.82	19.27	-6.45	-1.52	45.8	-0.8
PD+1 to PD+500	96	28.20	49.87	-21.67	-2.05**	41.7	-1.3
PD+1 to PD+750	96	41.25	69.93	-28.68	-2.04**	39.6	-1.5
Panel G: J. Rogers							
MD-125 to MD-26	55	2.80	5.16	-2.36	-0.53	50.9	0.1
MD-25 to MD-1	55	5.54	5.44	0.11	0.04	54.5	0.7
MD to PD	55	5.61	-0.43	6.04	2.94**	74.5	3.6***
PD+1 to PD+25	55	2.63	7.29	-4.66	-2.30**	32.7	-2.5**
PD+1 to PD+250	55	2.79	15.46	-12.68	-1.84	49.1	-0.1
PD+1 to PD+500	55	12.98	21.58	-8.60	-0.85	56.4	0.8
PD+1 to PD+750	55	21.79	40.60	-18.80	-1.33	52.7	0.3
Panel H: All Others as a Group (58 Participants)							
MD-125 to MD-26	533	3.27	1.44	1.83	1.30	51.8	0.8
MD-25 to MD-1	539	3.42	2.05	1.37	1.80	55.5	2.5**
MD to PD	539	4.95	3.02	1.93	3.23***	57.3	3.4***
PD+1 to PD+25	539	2.84	1.88	0.97	1.28	51.8	0.8
PD+1 to PD+250	539	9.92	12.73	-2.80	-0.98	46.6	-1.3
PD+1 to PD+500	539	23.00	28.01	-5.01	-1.10	47.5	-0.7
PD+1 to PD+750	539	38.12	41.95	-3.83	-0.56	46.9	-0.7

One possible explanation for this result could be that sell recommendations are costlier for the analysts than buy recommendations, and hence sell recommendations are made only when the money managers are more confident of their predictions. This asymmetry between the buy and sell recommendations suggests that additional research in an effort to resolve this may be fruitful.

D. Cross-Sectional Analysis of Abnormal Returns by Firm Size

Although the participants do not exhibit superior skill in making buy recommendations, on average, it is possible that their superior skill is in picking

Table V
Holding Period Returns for Selected Holding Periods:
Sell Recommendations

Holding period raw returns for the sample firms (RAWF), holding period raw returns for the matching firms (RAWMF), holding period abnormal returns (AHAR), *t*-statistic for the AHAR, percentage of positive AHAR (% +ve), and the corresponding *z*-statistic for the sell recommendations made at the Roundtable. MD (Meeting day) is the day the Roundtable convenes and the recommendations are made. PD (Publication day) is the day the recommendations are published in *Barron's*. The study covers twenty-four years from 1968 to 1991. We do not rebalance our portfolio if a sample firm disappears from the tape due to merger or any other reason. Instead we assume that the proceeds are invested in the matching firm. As a result, the number of observations are the same for all the postpublication holding periods. Note that we examine only the common stock recommendations made at the Roundtable.

Day	No. of Obs.	RAWF (%)	RAWMF (%)	AHAR (%)	<i>t</i> -Stat.	% +ve	<i>z</i> -Stat.
MD-125 to MD-26	152	6.20	9.91	-3.71	-1.11	41.4	-2.0**
MD-25 to MD-1	152	0.12	1.95	-1.83	-1.19	44.7	-1.3
MD	152	-0.17	-0.28	0.11	0.31	50.0	0.0
MD+1 to PD-1	152	1.06	1.16	-0.10	-0.12	46.7	-0.8
PD	152	-1.05	0.11	-1.16	-2.83***	36.8	-3.2***
PD+1 to PD+25	152	1.92	1.81	0.11	0.09	53.3	0.8
PD+1 to PD+250	152	6.74	14.86	-8.12	-1.80	39.5	-2.4**
PD+1 to PD+500	152	20.54	31.42	-10.89	-1.50	39.5	-2.1**
PD+1 to PD+750	152	33.16	44.31	-11.15	-1.02	38.8	-1.9

*** Significant at 1 percent level of significance using a two tail test.

** Significant at 5 percent level of significance using a two tail test.

relatively smaller stocks that are not followed by the market as much as the larger stocks. To examine this, we perform the entire analysis (not reported) for each of the size quartiles for the buy recommendations. Since the sample size for the sell recommendations is small, such an analysis would not be meaningful. For the buy recommendations, the holding period abnormal returns following the publication day are similar across the four size quartiles. Thus, there is no evidence of superior skill in recommending stocks on the part of the money managers for any of the size quartile.¹⁵

IV. Conclusions

Most studies examining the performance of the professional money managers find that, on average, money managers do not outperform simple passive benchmarks. In the present study, we examine 1751 common stock recommendations made by prominent money managers at *Barron's* Annual Roundtable

¹⁵ As expected, on the publication day the smaller stocks earn higher abnormal returns than the larger stocks for the buy recommendations. Many studies (e.g., Atiase (1985)) show that on the announcement day, the smaller stocks experience larger abnormal returns. This is consistent with the price-pressure hypothesis and the hypothesis that smaller stocks are followed less extensively than the larger stocks.

over a twenty-four year period from 1968 to 1991. *Barron's* refers to the participants as the "Wall Street Superstars" as they are generally acknowledged to be among the best in the business.

There are a number of advantages in analyzing this sample. First, the participants examined are clearly well known. Second, we examine the recommendations of all the participants, thus our results are free from survivorship bias. Third, the names of the stocks recommended and their publication dates are well defined, allowing us to examine a clean dataset. In addition, the time period of study covers twenty four years and, therefore, the results cannot be criticized as period-specific. Finally, the Roundtable allows us to analyze the performance of prominent individual money managers for whom reliable data are not available otherwise.

We find that the 1599 buy recommendations earn significant abnormal returns of 1.91 percent from the recommendation day to the day they are published in *Barron's*, a period of about 14 days. The abnormal returns after the publication day, however, are not significantly different from zero for all the holding periods examined. For example, for a 250-day holding period, the average abnormal returns are only 0.21 percent. Since there are no abnormal returns after the publication day, an investor, who reads the recommendations in *Barron's* and invests accordingly, would not profit by investing in the buy recommendations at the Roundtable. Thus, the so-called "superstars," on average, do not seem to possess superior skills in recommending stocks.

The sell recommendations are infrequent as there are only 152 sell recommendations and, therefore, the conclusions for sell recommendations are less general. We find that the money managers do better in making sell recommendations. The 152 sell recommendations, on average, earn -1.16 percent on the publication day and an additional -8.12 percent abnormal returns over a 250-day postpublication day holding period.

The above results do not shed light on why the participants are so well known. It is possible that the participants are able to time their buying as well as selling transactions more precisely to earn larger abnormal returns than reported here.¹⁶ Thus, additional research analyzing actual transactions by money managers may help us in identifying superior performers.

Appendix

In this appendix, we describe the statistical procedures used to compute the significance levels for abnormal returns reported in Tables III to V. We use four different procedures for computing t -statistics. In the first procedure, we assume that the abnormal returns across stocks are independent. Under this assumption, we compute cross-sectional portfolio variance VAR_T using

¹⁶ For example, Peter Lynch successfully managed the Magellan Fund and Jim Rogers (with George Soros) successfully managed the Quantum Fund. Their money management styles are partially described in Lynch (1993) and Rogers (1994). John Neff is also well known for the management of the Windsor Fund.

abnormal returns of each stock and compute the portfolio standard error as the square root of VAR_T . The assumption of independence is realistic in many cases (Brown and Warner (1985, p.21)) and is invoked in similar research studies. Nevertheless, we also use a second procedure to take the potential cross-sectional dependence among abnormal returns into account. Using monthly abnormal returns data over 48 months, we compute correlation coefficient ρ_{ij} for all pairs of i and j . Then Cov_{ij} for any period T is given by $\rho_{ij} \sigma_i \sigma_j$ where σ_i and σ_j are the standard deviations of abnormal returns for stock i and j over the time period T . Note that σ_i for T -month abnormal return is given by $\sqrt{T}$ multiplied by the standard deviation for monthly abnormal returns.¹⁷ For an equally weighted portfolio of n stocks, the dependence adjusted standard error of portfolio abnormal returns is then given by

$$SE_T = \sqrt{VAR_T + \frac{1}{n^2} \sum_{i=1}^n \sum_{j=1}^n COV_{ij} \quad \forall i \neq j.}$$

The portfolio standard error (SE_T) determined by using this procedure is the same as that given by the first procedure if we assume ρ_{ij} to be zero.¹⁸ In the third procedure, we take the average portfolio abnormal returns for each year's recommendations as one data point. This gives us 24 independent observations that are used to estimate the portfolio standard error. Finally, in the fourth procedure, we use the time series of monthly portfolio abnormal returns to estimate the portfolio standard error as explained in Brown and Warner (1980, p.250). Since the above four procedures give rise to very similar conclusions, we report t -statistics only from the second procedure.

We also use two nonparametric binomial tests, one assuming independence in abnormal returns across stocks and the other using a dependence adjustment procedure similar to the one described above for the parametric test. For a binomial distribution, the expected number of positive abnormal returns equals np , where n is the sample size and p is the probability of observing a positive abnormal return. The variance is $np(1-p)$. We assume p to be 0.5 for abnormal returns. In accordance with the procedure described above for cross-sectional dependence adjustment for parametric tests, we adjust the variance $np(1-p)$ to obtain an adjusted variance. Since the results are very similar

¹⁷ Ideally, to compute standard error for portfolio abnormal returns for T months, we should use a time series of T -monthly abnormal returns for individual stocks. However, such an analysis would require data from a very long time series. To overcome this constraint, we use 48 monthly abnormal returns and assume that monthly abnormal returns are independent across time. For converting time periods from days to months, we use 21 trading days to be equivalent to one month.

¹⁸ The dependence adjustment procedure does not affect the results in this paper, as the average correlation coefficient between the abnormal returns for two stocks is only 0.0194 when the estimation period is identical for the two stocks. When the time periods of analysis for two stocks are non-overlapping, we assume the correlations to be zero. Our second approach of computing the portfolio standard deviation (SE_T) using dependence adjustment is motivated from the general approach for computing the variance of the return on a portfolio (e.g., see Brealey and Myers (1991, pp. 139–142)).

across the two nonparametric tests, we report and discuss only the results from using the second approach. Additional results not reported in the paper are available from the authors.

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