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## Buy High, Sell Low

Bernard Condon, [Forbes Magazine](#), 06.11.01

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### What you always knew: Analysts are great advisers- if you do the opposite.

It was a bum steer, twice over. As investors in Capital Crossing Bank watched their stock lose 80% of its value in a yearlong slide, analysts told them to keep buying. Then last summer the professionals reversed and started rating the Boston bank's stock "neutral" or "hold," which is Streetspeak for "sell." The timing was near perfect-for contrarian investors. Within weeks the shares hit a two-year low. Those smart enough to buy when they were told to sell have doubled their money.

A rare gaffe? Not exactly. New research by four California professors shows that not only would you have lost money buying stocks that analysts pushed last year but you would have made money if you bought those they recommended selling. And not just a small return. You would have made 38% on your money, better than the S&P 500 has done since 1958.

"It was a disastrous year for analysts," says Reuven Lehavy, one of the two UC Berkeley professors who conducted the study with colleagues at UC Davis and Stanford. "I'd think twice about their recommendations on when to get back into the market."

### Misfortune Teller

Company	Analysts say "sell"	Stock hits annual low	Return since "sell" <sup>1</sup>
<b>Avista</b>	Jan 19	Jan 3	35%
<b>Capital Crossing</b>	July 12	Aug 3	38
<b>Technitrol</b>	Feb 22	Jan 18	22
<b>Timberland</b>	Feb 8	Jan 31	159
<b>Winn-Dixie Stores</b>	July 10	Aug 30	37

All dates in 2000. <sup>1</sup>Return on stock from analysts' "sell" date to analysts' "buy" date. Sources: *Bloomberg Financial*; *Zacks Investment*; "Prophets and Losses."

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The finding, part of a forthcoming paper called "Prophets and Losses," was based on only 56 recommendations to sell last year, as defined by First Call. But the professors note that "holds," which numbered 567, also put in an unusual performance: up 23% in a year when the major indexes were negative. The wacky results held true for tech and nontech companies, in times the market was rising and falling.

The study examined 160,000 ratings on 9,600 companies over 15 years. It's no surprise that analysts' "buy" ratings prove too optimistic. Many work at investment banks that reap underwriting fees from the very companies they supposedly cover objectively. Last year, if you bought stocks that analysts were pushing, you would have lost 42%.

But where's the bias explaining why the "sells" or "holds" were so wrong? Leheavy's conclusion: "I don't know what makes sense anymore."

An earlier paper from the four professors, based on 11 years of data through 1996, showed that following "buy" recommendations would have enabled a hypothetical investor to beat the market-before trading costs. The benefit would have been erased, however, if these costs were subtracted. Now the full 15-year database also concludes that the analysts are not right often enough to overcome the drag of frequent trading.

Which suggests another strategy: Follow your money. While the S&P 500 rose 525% over the past 15 years, Morgan Stanley rose 2,100%, Merrill Lynch, 1,500% and Bear Stearns, 700%. When in doubt, bet on the house.

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