

Beauty Premium? Evidence from Institutional Investors' Voting for All-Star Analysts

by Congcong Li, An-Ping Lin, Hai Lu, and Kevin Veenstra

Daniel Bens, INSEAD

Discussant

Asian Bureau of Finance and Economic Research

Annual Conference – 22 May 2017

Research Question

INSEAD

The Business School
for the World®

- Are the results of *All-Star* voting for the best sell-side analysts influenced by the facial attractiveness of those analysts?

Research Question

- Relevance?
 - Analysts can move share prices (Womack 1996)
 - *All Star* analysts are a particular source of information for the market (Lawrence, Ryans and Sun 2017)
 - *All Star* status affects analyst compensation (Groysberg, Healy and Maber 2011)
 - → Value in understanding how analyst achieve such status

Research Design

- Examine determinants of whether sell-side analyst is voted as an *All Star* by buy side analysts in *Institutional Investor*
- After controlling for fundamentals:
 - Does facial attractiveness matter?
 - Does facial attractiveness matter conditional on gender?
 - Does facial attractiveness matter conditional on information asymmetry in market?

Results

- After controlling for fundamentals:
 - Does facial attractiveness matter?
No
 - Does facial attractiveness matter conditional on gender?
Yes, attractive women less likely to be voted All Star
 - Does facial attractiveness matter conditional on information asymmetry in market?
Yes, when fewer analysts covering → beauty matters more

Measuring Beauty

- Rating by independent population
 - MTurk participants
 - MBA students
- Broad range (0-100, and framed as such) as well as narrow range (1-4, but framed to respondent in qualitative terms)
- De-mean rating by respondent's average rating to control for his or her bias

Measuring Beauty

- Question: Did the respondents realize this was a beauty contest across a number of photographs?
- Do you induce variation from respondents seeking to create a ranking? What if everyone is “above-average” vis-à-vis the general population?
 - Since main results fail to reject the null, this may be an alternative explanation

Measuring Beauty

- Question: Was there variation in the quality of photos? Are some professionally done while others closer to selfies?
- This may pick up the standards/practices of the brokerage as opposed to individual beauty

How Might Beauty Play a Role?

Table 1 – Summary of Institutional Investor Ranking Surveys 1998-2005

	1998	1999	2000	2001	2002	2003	2004	2005
Industry knowledge	1	1	1	1	1	1	1	1
Integrity/professionalism					2	2	2	2
Accessibility/responsiveness				2	3	3	3	3
Management access				7	5	5	4	4
Special services	4	3	2	5	7	6	5	5
Written reports	3	2	4	6	8	7	7	6
Timely calls and visits				4	4	4	6	7
Communication skills					10	9	8	8
Financial models			3	8	9	10	10	9
Management of conflicts of interest				3	6	8	9	10
Stock selection	2	5	7	10	11	11	11	11
Earnings estimates	5	6	5	9	12	12	12	12
Quality of sales force	7	7	8	11	13	13	13	
Market making	8	8	9	12	14	14	14	
Primary market services			10		15	15	15	
Servicing	6	4	6					

- Bradshaw (2011) – tally of most important attributes as per the *Institutional Investor* survey respondents

How Might Beauty Play a Role?

- What are the most important non-technical skills valued in these rankings?
- What drives *integrity/professionalism*, *accessibility/responsiveness*, *management access*, etc.?
- Communication skills? Education? Professional background? Social network?
- → Is LinkedIn attractiveness the right place to look?
 - Alternatively, can this attractiveness be correlated with these other skills?

How Might Beauty Play a Role?

- “The research on beauty perception suggests that beauty is an indirect measure of some unobservable characteristics.”
p. 9
- Yet many of the attributes from Bradshaw’s table 1 do seem observable
- So the authors identify an information asymmetry split where the beauty might be more relied upon as a heuristic...

How to Measure Asymmetry?

Table 6
Test of H3: Does Information Asymmetry Affect the Beauty Premium?

Information Asymmetry Level =	High (Low Analyst Coverage)	Low (High Analyst Coverage)	High (Fewer Earnings Forecasts)	Low (More Earnings Forecasts)
<i>Beauty</i>	0.010*** (3.28)	-0.007 (-1.19)	0.050** (2.20)	-0.007 (-1.23)
<i>Female</i>	-1.640** (-2.01)	1.137*** (3.24)	-1.650** (-2.29)	1.181*** (3.46)
<i>Beauty * Female</i>	0.002 (0.24)	-0.019** (-2.24)	-0.046** (-2.50)	-0.022** (-2.35)
<i>AFE</i>	-6.437* (-1.79)	-3.849** (-2.30)	-1.517*** (-15.25)	-4.246** (-2.41)
<i>Horizon</i>	-0.169 (-0.09)	4.038*** (2.67)	-1.466 (-0.70)	3.598*** (2.76)
<i>Freq</i>	-0.035 (-0.17)	0.091 (1.44)	0.156 (0.51)	0.063 (1.00)
<i>BSize</i>	0.017*** (4.45)	0.015*** (6.31)	0.020*** (9.15)	0.014*** (6.38)
<i>NFirm</i>	0.361*** (7.76)	0.127*** (3.54)	0.401*** (61.10)	0.129*** (3.21)
<i>NInd</i>	-0.306*** (-4.50)	-0.159* (-1.74)	-0.451*** (-4.27)	-0.163* (-1.85)
<i>GExp</i>	-0.235*** (-4.20)	0.003 (0.08)	-0.138*** (-2.63)	-0.014 (-0.35)
<i>FExp</i>	0.765*** (7.99)	0.155** (2.38)	0.732*** (6.65)	0.175*** (2.60)
<i>Size</i>	0.623* (1.67)	0.866*** (6.97)	0.118 (0.44)	0.913*** (6.54)
<i>MTB</i>	0.026** (2.38)	0.003 (0.15)	0.025 (0.75)	0.007 (0.53)
<i>ROA</i>	5.876 (1.05)	3.503 (1.31)	16.443** (2.30)	2.641 (0.95)
<i>Industry Fixed Effects</i>	Included	Included	Included	Included
<i>Year Fixed Effects</i>	Included	Included	Included	Included
N	512	2,260	488	2,284
Pseudo R-squared	0.517	0.383	0.590	0.381

How to Measure Asymmetry?

INSEAD

The Business School
for the World®

- Crucial measurement given the conclusion of the paper
- Logic: if analyst following low → buy side analysts will have less objective measures to evaluate sell side analysts and thus more susceptible to coarser heuristics such as beauty

How to Measure Asymmetry?

- Concerns with logic:
 - Buy side analysts are sophisticated
 - Investing money in sector
 - Able to benchmark across sectors in objective way (e.g., management access; returns to recommendations; forecast accuracy)
 - Low analyst following is endogenous
 - It may be a sector that is fairly stable and thus information demands of buy side is low
 - Does not suggest that buy side would be unable to judge sell side analysts well, and may imply the opposite

How to Measure Asymmetry?

- Alternative measures of asymmetry?
 - Analyst entry/exit
 - Firm entry/exit
 - Usual suspects
 - R&D
 - Patents
 - Market to Book
 - Share price volatility
 - Etc.

Other Issues

Economic Magnitudes

- Most specifications are logit regressions where interactions are difficult to interpret
- What if estimate the regression in OLS? What is the magnitude of the *Beauty x Female*

Reversal of *Female* Effect across High v. Low Analyst

- See Table 6
- Why are women punished when fewer analysts and rewarded when there are more?

Summary

- Per prior literature, *Institutional Investor All-Star* rankings have economic relevance in an important industry
- Rankings immune to a main beauty effect, though conditional relations do emerge (female; asymmetry)
- I suggest better understanding of *what* the analysts are doing and how these may be influenced by beauty; and
- Reassess how *asymmetry* is measured and how it may interact with beauty

INSEAD

The Business School
for the World®

Thank You!

Understand the world. Expand your world.