

EVALUATING VALUE OF BROKERS' RECOMMENDATIONS IN THE THAI STOCK MARKET

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EXECUTIVE SUMMARY

This study evaluates the value of stock recommendations provided by brokers and sub-brokers in the Thai stock market. Using weekly survey data from Managers Information Services from 7 March 1994 to 3 March 1997, the study finds a significant price increase for recommended stocks on Monday and Tuesday in the recommendation week. However, the price fell afterward. Investors could benefit from these recommendations if they received them early and held the stocks for a short period. The downward price drift resulted partly from the brokers' loyal choice for high-beta stocks even in a bearish market, thereby indicating their poor market timing ability. Further analyses suggest that the brokers did not demonstrate stock selection ability. However, there is some evidence to suggest that they have industry-identification ability, although this ability could generate little investment value to the investor.

1 INTRODUCTION

In Thailand, investors who wish to trade stocks listed on the Stock Exchange of Thailand must open an account with member brokers (or sub-brokers¹). These brokers are full-service brokers. After accounts have been opened, brokers will provide their investors with information about the economy, market, industries, and/or specific firms as well as recommendations on which stocks to buy or sell. There is no pattern as to what types of information brokers will provide or when they will provide it. However, most brokers recommend winner and/or loser stocks on a regular basis and their lists can be updated as frequently as every three days or every week. There is no direct charge for the information being offered. However, if the investors decide to buy or sell stocks, the system designed by the Stock

¹ Sub-brokers provide brokerage services to investors for fees. Since these sub-brokers are not members of the Stock Exchange of Thailand, they will have to submit buy and sell orders of SET-listed stocks through member brokers for execution.