

## Summary

Firms' index membership around the Russell 1000 / 2000 threshold matters for analysts' career outcomes:

- **Lower recommendations** for firms above threshold before rank day
- Firms moving from the bottom of Russell 1000 to the top of Russell 2000 increase an analyst's likelihood to **move to prestigious brokerage house**
- Increase in IO, within analyst's portfolio, associated with higher prob. of moving to prestigious brokerage house

## Introduction

We study the role of firms' movements between Russell 1000 and 2000 indices that cause **discontinuous changes in Institutional Ownership (IO)** around the index threshold and hence in the importance of analysts covering these stocks. IO are important to brokerage houses and therefore to the analysts working at these brokerage houses. Index cut-off points might incentivize strategic behavior by analysts trying to affect a firm's index membership.

## Research Question

- **R1:** Do quasi-random changes in firms' stock index membership affect sell-side analysts' career outcomes?
- **R2:** Is this beneficial outcome for the analyst reflected in analyst recommendations?

## Data

- Period: 1995 to 2019
- Bloomberg: Russell 1000 / 2000 Constituents
- IBES: Analyst Data
- Thompson-Reuters 13F: IO Information
- CRSP and Compustat: Stock Returns and Firm Data

## Methods

To study the impact of index changes on analyst career outcomes, we construct a yearly analyst dataset. For each analyst, we count the number of firms near the Russell cut-off that move between the two indices, and observe changes in employment (Results **Table 1**). To test if analysts issue lower recommendations for firms just above the index threshold, prior to the rank date, we construct a monthly panel of analyst-firm observations of stock recommendations (Results **Figure 1**).

## Results

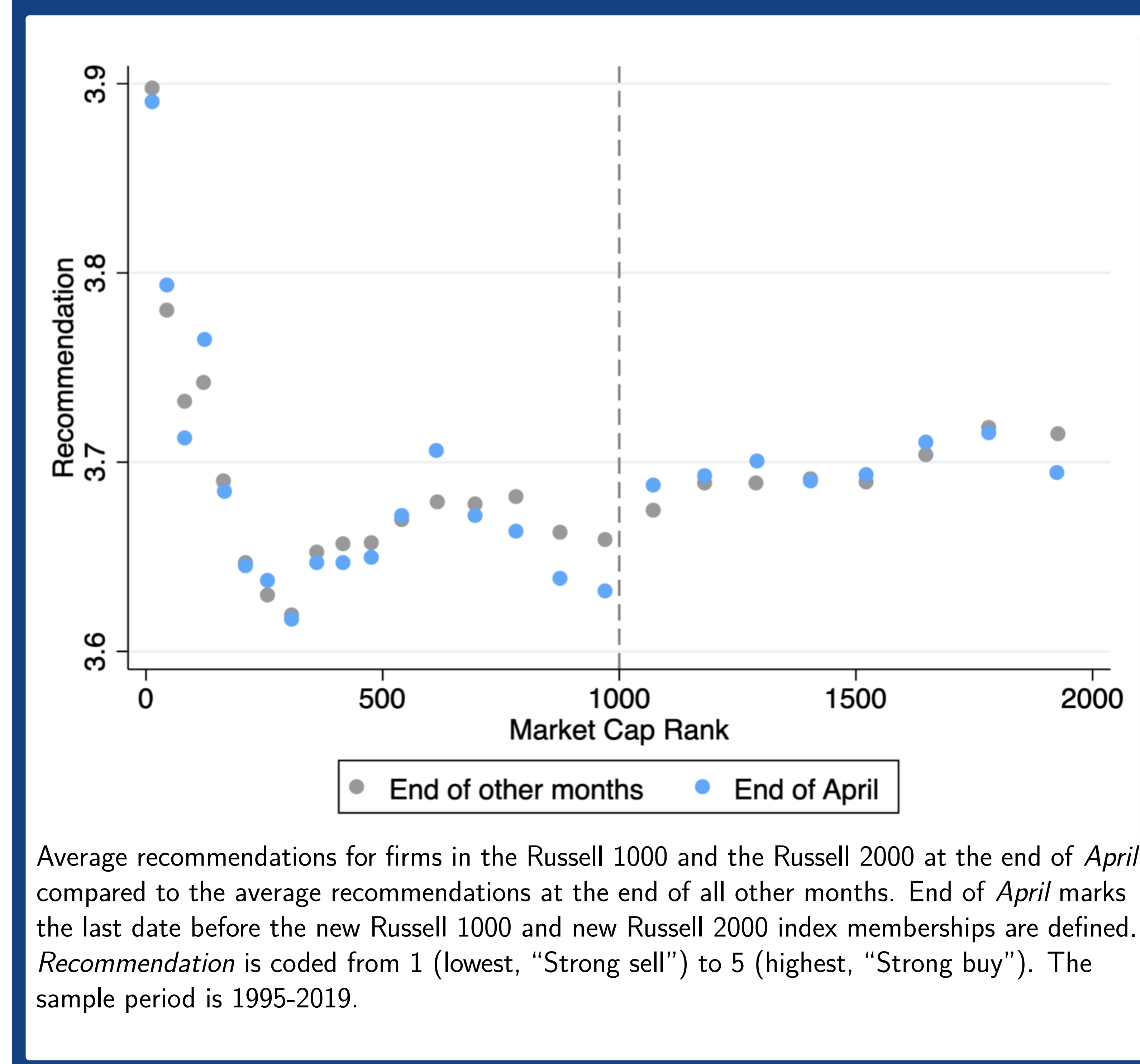
### R1:

- Table 1 shows firms moving from the bottom of Russell 1000 to the top of Russell 2000 **increase an analyst's likelihood to move to a Top 10 brokerage house**
- Firms' index membership around the Russell 1000 / 2000 threshold matters for analysts' career outcomes

### R2:

- Figure 1 indicates **lower recommendations** for firms above threshold, before rank day
- Index cut-off points incentivize **strategic behavior** by analysts trying to affect a firm's index membership

Figure 1. Recommendations around Threshold



## Economic Magnitude

### Analysts' Career Concerns:

- Firm moving from Russell 1000 to the top of Russell 2000 increases the likelihood of the analyst **moving to a higher-status broker by up to 30%**, compared to baseline probability

### Analysts' Recommendations:

- For firms around the threshold, the likelihood of a buy recommendation is, relative to the sample mean, about 4% to 6% lower in April than in other months

## Conclusion

We find novel evidence that quasi-random changes in firms' stock index membership affect sell-side analysts' **career outcomes**. Exploiting a plausibly causal setup, our findings suggest that **institutional ownership** of covered firms is **important** for an analyst's career prospects. Moreover, we find that the index cut-off points may incentivize **strategic behavior** by analysts trying to affect a firm's index membership.

Table 1. Russell Index Switch and Career Outcome

	Switch to Top 10			
2-Yr. No. Firms R1000-to-R2000 Threshold	<b>0.0041**</b>	<b>0.0057***</b>	<b>0.0034*</b>	<b>0.0034**</b>
	(0.0020)	(0.0017)	(0.0019)	(0.0016)
2-Yr. No. Firms R2000-to-R1000 Threshold	0.0023	0.0008	-0.0028	-0.0044
	(0.0035)	(0.0038)	(0.0058)	(0.0057)
Analyst Controls	No	Yes	Yes	Yes
Year FE	No	No	No	Yes
Analyst FE	No	No	Yes	Yes
N	86,885	72,529	71,016	71,015
R <sup>2</sup>	0.000	0.002	0.112	0.115

Switch to Top 10 is a dummy taking the value 1 if an analyst switches to a Top 10 broker. R1 to R2 800-1200 indicates the number of firms within the analyst's portfolio that switch from the Russell 1000 to the Russell 2000 and end up within 200 places away from the cut-off threshold. The sample period is 1995-2019. Heteroscedasticity-consistent standard errors, double-clustered by analyst and year, are shown in parentheses.