

# Investor Sentiment and Sell side Research Quality

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## ***Research question:***

Does investor sentiment affect sell-side analysts' research quality?

## ***Empirical tests:***

Using textual analysis to measure the industry knowledge in Chinese A-share healthcare reports, we find that analysts with higher industry knowledge are more accurate and more likely to conduct independent research.

After controlling for confounding factors, we find that when investor sentiment is higher, analysts' research quality is significantly lower.

## ***Theoretical Insight:***

Institutional investors reduce their demand for fundamental analysis during bubble periods.

Due to their career concern, analysts cater to their clients' time-varying demand by strategically adjusting their effort levels.