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## Analyst Profession, Accounting Earnings and Stock Returns: Swedish Evidence

This study compares the role of the Swedish analysts' earnings forecasts to that of the reported accounting earnings in the estimated returns-earnings relation, that is, the earnings response coefficients. The returns-earnings models investigated include the traditional earnings levels and changes and models including analysts' earnings forecasts based on the extended residual income model by Ohlson (1995).

The paper extends the current literature in two main respects. First, the previous results on the returns-earnings relation including those based on the use of the analysts' forecast are

mainly based on US data, and the evidence based on non-US data is limited. The paper uses data from the Swedish stock market in which the role and importance of the analyst profession has considerably increased during the sample period. This being the case, it can be assumed that the role of the analysts' forecasts has increased during the sample period. Second, the paper directly compares the strength of the returns-earnings relation by using alternative returns-earnings model specifications based on accounting earnings and analysts' earnings forecasts. In this respect, the paper contributes to the literature by investigating the adequacy of different types of earnings information as a summary of value relevant events.

The results indicate that the analysts' earnings forecasts and changes in these forecasts are important in explaining stock returns. Moreover, the findings indicate that the levels of the published earnings and the levels and changes of the analysts' earnings forecasts are significantly related to stock returns. The results also indicate that different earnings measures have incremental importance with respect to each other. The extended versions of the Ohlson (1995) residual income model seem to generate reasonable returns-earnings models in terms of their empirical validity. Various sensitivity analyses including random coefficient models, annual cross-sectional regressions and industry-level models are conducted to check for the robustness of the results. ■