

-RESEARCH ARTICLE-

MARKET REACTIONS TOWARDS ANALYSTS' RECOMMENDATIONS IN EMERGING MARKETS: EVIDENCE FROM MALAYSIA

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—Abstract—

This study empirically examines the value of analysts' recommendations concerning the Malaysian stock market. Analyzing a sample of 1163 analysts' recommendation announcements spanning 2010 to 2018, it is shown that stock prices respond considerably to analysts' upgrade and downgrade recommendations. This study applies event study methodology to investigate price reactions by estimating abnormal returns using the market model. Utilizing daily data, this study reveals statistically significant price increases following recommendation upgrades and price declines in response to recommendation downgrades with downgrade effects being more pronounced than

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upgrade effects. Additionally, the market's reaction to changes in recommendations results in considerable price drifts lasting up to six months following the recommendations. These findings indicate that analysts' recommendations provide valuable information in identifying mispriced stocks in the Malaysian stock market. The implication is that investors could rely on the analysts' informational edge to make informed investment decisions.

Keywords: Analysts' Recommendations, Efficient Market Hypothesis, Emerging Markets, Malaysia

1. INTRODUCTION

The significance of analyst recommendations in financial markets has long been a research concern. This body of knowledge has produced a series of empirical studies on market efficiency. Given the fact that market efficiency is important in terms of engaging investment [Reilly et al. \(2011\)](#), the efficient market hypothesis (EMH) serves as the essential reference for this study. As proposed by [Fama \(1970\)](#), a market is efficient if the prices of securities reflect all available information entirely. Market efficiencies are classified into three categories: weak form, semi-strong form, and strong form. A weak form of market efficiency is concerned with the fact that today's stock prices reflect all historical trading information. A semi-strong form assumes that the market is efficient when all relevant publicly available information is rapidly reflected in stock prices. While a strong form of market efficiency implies that stock prices reflect all public and private information. This study examines whether analysts can add value through their recommendations. Testing price reactions related to analysts' recommendations is a part of the test for strong-form efficiency [\(Reilly et al., 2011\)](#). If a firm's share price changes substantially on the day of the recommendation announcement, then the market is not strong-form efficient.

Past studies regarding the value of analysts' recommendations have been conducted widely in developed markets, notably in the United States see [\(Jegadeesh et al., 2004a; Jegadeesh et al., 2006; Stickel, 1995; Vukovic et al., 2021; Womack, 1996\)](#). Nonetheless, investors in developed markets often see emerging markets as less appealing than developed markets due to the perception that they are too risky to invest in [\(Moshirian et al., 2009\)](#). According to [Lang et al. \(2004\)](#), the emerging market's less desirable condition results from the lack of governance and disclosure mechanisms. Corporate governance deficiencies, such as a lack of transparency, will impact capital market information disclosure. This uninformed environment condition is worsened by the inadequate quality of financial reporting that results from a lack of openness regarding the business's ownership structure [\(Abdullah et al., 2015\)](#). [Farooq et al. \(2014\)](#) suggest that financial analysts will be unable to generate and disseminate value-relevant information to investors due to the difficulties in collecting reliable information. As a result of the manager's refusal to give credible information, investors will likewise have

trouble obtaining accurate information about the firm's true value. Due to both circumstances, information imbalances occurred, hence increasing information asymmetry.

According to [Frankel et al. \(2006\)](#), voluntary disclosure by business managers and the ability of financial analysts to gather private information can help reduce the gap between investors and firms. In that case, investors are perceived to be requiring the services of professionals who can provide valuable information to help them make investment-related decisions. It is because financial analysts are expected to provide more meaningful information through their recommendations as experts in gathering and analyzing public and private information. This is crucial given that the ultimate objective of investors is to earn a high rate of return on their investments.

[Claessens et al. \(2013\)](#) and [Abdullah et al. \(2015\)](#) have highlighted Malaysia as one of the emerging economies with the most significant number of publicly traded firms owned by family members who are actively involved in management. [Lang et al. \(2004\)](#) demonstrate empirically that financial analysts are less interested in firms controlled by family members due to the possibility of information manipulation. This is because families are likely to possess a significant influence on the operations and financial decisions of the firm. As a result, they have the authority to conceal personal gains from other shareholders. Despite being a less developed market with a high proportion of family-owned firms, Malaysia has surpassed the 100-point disclosure requirement index by 92 basis points ([Claessens et al., 2013](#)). Furthermore, the World Bank reported that Malaysia's business transparency index hit a record high between 2011 and 2019. Given the significance of the informative role by financial analysts shown in the preceding studies, this study is motivated to explore the stock market reactions in the context of the Malaysian market.

[Antônio et al. \(2017\)](#) examine whether the estimated standard deviations of price-target shares issued by capital market analysts are informative, and ascertains whether it is possible to identify smaller errors in analysts' forecasts from the verification of the consensus among them, by utilizing the data of Latin American countries, and relying on a database of 23,367 estimates of target-price shares during the period from October 2010 to January 2017. The results indicate that the greater the consensus (smaller standard deviation), the smaller the forecast errors, which further shows that the greater the government effectiveness, the greater the forecast accuracy of target-price estimates issued by the analysts.

The study's findings shed further light on the informational significance of financial analysts in influencing investors' wealth when they follow analysts' recommendations. The market reactions may provide evidence of whether or not the upgrade and downgrade recommendations made by analysts in Malaysia have value for uninformed investors. On the other hand, as indicated in Bursa Malaysia's Annual Report 2020, there

has been a significant increase in the number of participants in trading activities, notably retail investors. The considerable growth in market participants from 22% in 2017 to 38% in 2020 would increase demand for value-relevant information. According to the statistics disclosed, analyst recommendations are expected to be even more influential in terms of helping investors make informed judgments. Since retail investors cannot easily gather and interpret large amounts of information about the equity market, it is not easy for them to assess a firm's true value. Thus, a greater understanding of the value of analyst recommendations can benefit uninformed investors. In other words, the analysts' recommendations help these less knowledgeable and skillful investors make a wise and informed investment decision.

The purpose of this study is to explore market reactions on analysts' upgrade and downgrade recommendations to abnormal returns in the Malaysian stock market from 2010 to 2018. By employing an event study methodology similar to that of [Brown et al. \(1985\)](#) and [MacKinlay \(1997\)](#) as well as estimating abnormal returns using a market model (MM), this study discovers that stock prices react considerably to changes in analyst recommendations. The stock price increases significantly to upgrade recommendations while significantly decreases following downgrade recommendations. As a result, investors might act on the recommendations in order to generate abnormal returns in the Malaysian stock market. The remaining sections of this study are structured as follows. Section 2 undertakes a review of the literature concerning the usefulness of analyst recommendations. Section 3 focuses on the methodology used, which also covers data collection and sample selection. Section 4 discusses market reaction to analyst upgrades and downgrades on the basis of empirical results. Section 5 provides concluding remarks as well as highlights key practical implications of the study.

2. LITERATURE REVIEW

This section reviews prior research on the effect of analyst recommendations on stock returns. The majority of research results reveal a considerable market reaction in response to analyst recommendations ([B. Barber et al., 2001](#); [Barber et al., 2010](#); [Jegadeesh et al., 2004b](#); [Jegadeesh et al., 2006](#); [Moshirian et al., 2009](#); [YAŞ et al. \(2021\)](#); [Stickel, 1995](#); [D. Vukovic et al., 2020](#); [Vukovic et al., 2021](#); [Womack, 1996](#)). This illustrates that the analyst recommendations provide new and important information, resulting in market price revisions. Their impact on stock market prices demonstrates the value that analysts add through their recommendations.

[Alfred \(1933\)](#) asserts in the early research on the topic that the majority of analysts' recommendations do not generate abnormal returns. In other words, [Alfred \(1933\)](#) concludes that a variety of forms of investment advice were ineffective at advising investors. However, [Womack \(1996\)](#) argues that criticisms of sample bias or the use of inaccurate data have weakened the effect of these findings. After analyzing the US stock data with 1573 recommendation changes for 822 firms from 1989-1991, [Womack](#)

(1996) observes a strong positive stock price reaction in response to favorable recommendations and a significant negative stock price reaction in response to unfavorable recommendations. In the same study, [Womack \(1996\)](#) finds that there is a long-term price drift for downgrade recommendations up to six months. [B. M. Barber et al. \(2001\)](#) also report similar findings. [B. M. Barber et al. \(2001\)](#) conclude that the strategy of purchasing stocks with the most favorable recommendations and selling stocks with the least favorable recommendations generates an annual abnormal return greater than 4%.

[Jegadeesh et al. \(2004a\)](#) examines the profitability of trading strategies over the period 1993 to 2002 in relation to changes in analysts' recommendation and comes to the conclusion that analysts' recommendations can forecast future returns. Meanwhile, [Jegadeesh et al. \(2006\)](#) compare the value of analysts' recommendations in G7 countries which are the United States, Britain, Canada, France, Germany, Italy and Japan. They confirmed that US analysts are more skilled at identifying mispriced stocks than their counterparts in other countries. Recent research by [Vukovic et al. \(2021\)](#) and [D. Vukovic et al. \(2020\)](#) demonstrate the significance of analysts' recommendations in the US, UK and Russian stock markets. [Vukovic et al. \(2021\)](#) examine the effectiveness of analysts' recommendations in the U.S and the U.K. On the basis of 1881 analysts' recommendations from 168 firms traded at the London Stock Exchange (LSE) and the New York Stock Exchange (NYSE) spanning January to April 2019, they find that in both markets, analysts have predictive power in assessing stock prices. [D. Vukovic et al. \(2020\)](#) evaluate the effects of published analyst recommendations on the Russian stock market over 2013 to 2018. The study observed large positive market reactions to upgrades and significant negative market reactions to downgrades. Additionally, downgrade impacts appear to last slightly longer than upgrade effects, that is, up to two days following the publication of the recommendations, whereas upgrade effects appear to be more immediate, lasting up to one day following the recommendations. [Park et al. \(2000\)](#) analyze a sample of 7,797 quarterly earnings announcements that are followed by analysts' revised investment recommendations within five days, findings shows that consensus analyst upgrades following good earnings news and downgrades following bad earnings news are incrementally informative, and more so than upgrades following bad earnings news and downgrades following good earnings news. These results are consistent with the market regarding confirmatory revisions as more credible than contradictory revisions or as reinforcing the perceived persistence in the just announced earnings. Sell side analysts change their stock recommendations when their valuations differ from the markets. [Kecskés et al. \(2017\)](#) find that recommendation changes motivated by earnings estimate revisions have a greater initial price reaction than the same recommendation changes without earnings estimate revisions: about +1.3% (-2.8%) greater for upgrades (downgrades).

Moshirian et al. (2009) and Bellando et al. (2016) also provide evidence that analysts' recommendations have predictive value in emerging markets. Moshirian et al. (2009), investigate the profitability of analyst recommendations from 1996 to 2005 in eleven emerging markets¹. They examine the post-recommendation period empirically and find that stock prices respond considerably to analyst recommendations. They observe a strong price impact of 2.88% following positive recommendations and -3.69% following negative recommendations on the recommendation day. Meanwhile, Bellando et al. (2016) determines the market value of recommendations in Tunisia over the period of 2005 to 2009. They find significant positive returns of 1.19% for positive recommendations and -1.61% for negative recommendations. Martinez (2010) examine the market reaction towards the analysts' recommendations in the Brazilian stock market. The study reveals that the analysts' recommendations are able to identify mispriced stocks that offered greater returns within the period of the study. For the period of 2005 to 2016, YAŞ et al. (2021) document significant market reactions to abnormal returns in the Malaysian stock market. They discover that the short-term event window (0,1) generates a substantial positive market reaction of 1.31% associated with positive recommendations and a significant negative market reaction of 1.98% in response to negative recommendations. In the long run, market reaction drifts up significantly following upgrade recommendations and decreases significantly to downgrade announcements in the three-month (0,60) event window.

By analyzing daily data on the KOSPI stock market, Kim et al. (2019) examine the effect of analysts' recommendations on the relationship between investor sentiment and stock returns. Findings shows that investor sentiment is more sensitive to upgrade announcements than it is to downgrade announcements, implying that analyst reports yield meaningful trading indications to uninformed investors. Furthermore, investor sentiment becomes pessimistic prior to bad news being released, significantly affecting the response of stock returns to downgrade announcements. Thus, investor sentiment is one possible cause of asymmetric stock market reactions to changes in analysts' recommendations.

3. METHODOLOGY

This study analyses 1,163 changes to analysts' recommendations published between 31st January 2010 and 30th June 2018. Specifically, upgrade recommendations accounted for 668, while downgrade recommendations accounted for 495. Tests are performed on publicly traded firms on Bursa Malaysia that have had changes in financial analysts' recommendations published by brokerage firms. The stock analyst recommendations data is gathered from Bloomberg Terminal (Bloomberg Finance, 2020) and Bursa Malaysia (Berhad, 2020) website on the research repository section. Data on daily

¹ Argentina, Brazil, China, Chile, Hungary, India, Indonesia, Israel, Korea, Mexico, and South Africa are among the emerging markets examined in the study.

closing prices and market index are collected from Datastream (Datastream, 2020).

This study applies the event study methodology proposed in previous research (Brown et al., 1985; He et al., 2020; MacKinlay, 1997; Maneenop et al., 2020; Singh et al., 2020; Urbschat et al., 2020; Wang et al., 2020; Yu et al., 2020). The market model (MM) is used to determine the impact of abnormal market reactions on analyst recommendations returns. This study uses a 141-day event window. It spanned ten days prior to the event, the event day, and 130 days following the event to account for the effect of market reactions on recommendation announcements. The estimation period is between 200 and 11 days before the event day (-200, -11). To compute the cumulative abnormal return (CAR), the normal return must first be calculated using a market model approach as in MacKinlay (1997) and Murat et al., 2021. The term "normal return" refers to the expected return in the absence of the event. The market benchmark is the FTSE Bursa Malaysia EMAS Index (FBMEMAS) as in other studies that have used this same benchmark (Ling et al., 2020; Thohirah, 2016).

The first step is to calculate the actual daily return for each firm and the daily market return for the 141-day event window, which spans days -200 to +130. The following formula is used to determine the actual daily return of firm i on day t :

$$R_{i,t} = \ln\left(\frac{p_{i,t}}{p_{i,t-1}}\right) \quad (1)$$

where $R_{i,t}$ is the actual return for firm i on day t while $\ln\left(\frac{p_{i,t}}{p_{i,t-1}}\right)$ represents the natural log of stock price for firm i on day t divided with the prior day's stock price. The following equation estimates the daily market return of the FBMEMAS index:

$$R_{m,t} = \ln\left(\frac{EMAS_t}{EMAS_{t-1}}\right) \quad (2)$$

$R_{m,t}$ represents the return on market index on day t while $\ln\left(\frac{EMAS_t}{EMAS_{t-1}}\right)$ is the natural log of market index level at the end of day t ($EMAS_t$) divided by the market index level at the end of the previous day ($EMAS_{t-1}$). Then, the actual return ($R_{i,t}$) in equation (1) and the return on the market index ($R_{m,t}$) in equation (2) from day -210 to day -11 (the estimation period) is employed to estimate the intercept and slope of the market model (MM). The equation is approximated as follows:

$$R_{i,t} = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t} \quad (3)$$

$R_{i,t}$ refers to the firm i 's return on day t , α_i and β_i indicates the parameters of the model for firm i , $R_{m,t}$ is the return of market portfolio on day t and $\varepsilon_{i,t}$ denotes the zero mean disturbance term. Following that, this study computes the abnormal returns for firm i from day -10 to 130 as follows:

$$AR_{i,t} = R_{i,t} - (\alpha_i + \beta_i R_{m,t}) + \varepsilon_{i,t} \quad (4)$$

where $AR_{i,t}$ denotes the abnormal returns of firm i on day t , and the remaining parameters have been discussed earlier. The next step is to take the daily average abnormal returns (AAR_t) of all firms as the following:

$$AAR_t = \frac{\sum_{i=1}^n AR_{i,t}}{n_t} \quad (5)$$

where n_t is the number of traded stocks on day t . The variance of AR_t is calculated as follows:

$$var(AAR_t) = \frac{1}{n^2} \sum_{i=1}^n \sigma_{\varepsilon i}^2 \quad (6)$$

where $\sigma_{\varepsilon i}^2$ is the variance of the residuals of firm i derived from model (3). The Z-test is used to test the daily significance of AR_t in the following manners:

$$Z = \frac{AAR_t}{\sqrt{var(AAR_{t1,t2})}} \quad (7)$$

Then, the cumulative average abnormal return for the window period between t_1 and t_2 ($CAAR_{t1,t2}$) is calculated as follows:

$$CAAR_{t1,t2} = \sum_{t=t1}^{t2} AAR_t \quad (8)$$

Subsequently, the Z-test is employed to test for significance of $CAAR_{t1,t2}$. The model of Z-test is as follows:

$$Z = \frac{CAAR_t}{\sqrt{var(CAAR_{t1,t2})}} \quad (9)$$

Finally, the cumulative abnormal returns of firm i ($CAR_{i(t1, t2)}$) over a specified period t_1 to t_2 is obtained by adding the daily abnormal returns for firm i ($AR_{i,t}$) across the period as follows:

$$CAR_{i(t1,t2)} = \sum_{t=t1}^{t2} AR_{i,t} \quad (10)$$

4. FINDINGS AND DISCUSSIONS

4.1 Market Reactions to Announcements of Upgrade Recommendations

The average abnormal returns (AARs) for the period three days prior to the announcements to three days following the announcements of upgrade recommendations are shown in [Table 1](#). As the table indicates, investors react positively and immediately to positive upgrade recommendations; [Kim et al. \(2019\)](#) reach similar findings. The Malaysian market responds positively to upgrade recommendations beginning a day

before the recommendation day ($t=-1$) and lasting up to two days following the recommendation day ($t=2$), with a peak on the recommendation day ($t=0$). The findings are statistically significant either at the 1% or 5% levels. Notably, share price reactions with a 5% significance level occur on pre-announcement days. They have an average abnormal return (AAR) of approximately 0.20 % (p-value = 0.02). Additionally, the average abnormal return (AAR) jumps to a peak of 0.66 % on the announcement ($t=0$) and is statistically significant at the 1% level (p-value of 0.00). However, the effect of upgrade recommendations decreases to around 0.24 % (p-value = 0.00) on day 1 and to 0.14 % (p-value = 0.05) on day two, but remains significant.

Table 1. Average Abnormal Returns (AARs) Over a Seven-Day Period: Recommendations for Upgrades

Event Day (t)	AAR (%)	p-value
-3	-0.095	0.254
-2	0.038	0.650
-1	0.196	0.020**
0	0.658	0.000***
1	0.238	0.005***
2	0.137	0.049**
3	-0.019	0.776

***, **, and * implies a significance level of 1%, 5%, and 10% respectively.

Based on the findings, it can be concluded that changes in upgrade recommendations surrounding the event window contain new information that triggers market price adjustment. These findings corroborate Fama (1970) efficient market hypothesis that new information influences pricing instantly. These findings are also congruent with those of (Murg et al., 2014; D. Vukovic et al., 2020; YAŞ et al., 2021), which demonstrate that investors can maximize their wealth creation by immediately reacting to upgrade recommendations.

Table 2. Cumulative Average Abnormal Returns (CAARs): Recommendations for Upgrades

Event Window	CAAR (%)	p-value
CAAR (-10,130)	2.874	0.003***
CAAR (-10,1)	0.937	0.001***
CAAR (-5,5)	1.274	0.000***
CAAR (-2,4)	1.337	0.000***
CAAR (-1,1)	1.092	0.000***
CAAR (0,1)	0.896	0.000***
CAAR (2,130)	1.936	0.028**
CAAR (5,130)	1.729	0.046**

***, **, and * implies a significance level of 1%, 5%, and 10% respectively.

Similar to the results of daily average abnormal returns (AARs), the cumulative average abnormal returns (CAARs) are positive and statistically significant at either 1% or 5% levels (refer to Table 2). The returns on all event windows range from 0.90%, for a three-day event window (-1,1), to 2.87%, for a 141-day event window of (-10,130). Except for the 129-day event window (2,130) and 126-day event window (5,130) of the post-announcement date, which are significant at the 5% level; all returns are statistically significant at the 1% level. As illustrated in the table, it is evident that the stock price seems to trend upward in the long term as a result of analysts' upgrade recommendations.

4.2 Market Reactions to Announcements of Downgrade Recommendations

Table 3 presents the average abnormal returns (AARs) throughout the short window period to determine the price movements of the Malaysian stock market to downgrade recommendations. According to the seven-day observations of the event window (-3, 3), the study finds that stock prices react significantly to downgrade recommendations on the announcement day (t=0). The price continues to move in the direction of analyst recommendations on the following day (t=1) until day three (t=3), except for day two (t=2), which is insignificant. Specifically, significant negative abnormal returns are observed on the announcement day, post-announcement day and day three. Meanwhile, significant negative abnormal returns on day three suggest that the downgrade recommendations have a longer-lasting effect, as the price continues to fall from the announcement day onward.

The highest absolute negative abnormal returns of 1.09%, which is significant at the 1% level on the recommendation day, indicates that price responds quickly to bad news. Following this, the impact of downgrade recommendations continues to fall to 0.58%, with a 1% significance level on the next day. The negative abnormal returns continue to decline to around 0.27% (p-value = 0.00) on the post-announcement day of 3, which is statistically significant at the 1% level. Despite the decrease in abnormal returns following the announcement day, the negative impact power remains statistically significant at a 1% level which implies that the analysts' downgrade recommendations contain predictive information for investors.

Table 3. Average Abnormal Returns (AARs) Over a Seven-Day Period: Recommendations for Downgrades

Event Day (t)	AAR (%)	p-value
-3	0.030	0.691
-2	-0.016	0.852
-1	-0.149	0.158
0	-1.090	0.000***
1	-0.574	0.000***

2	-0.040	0.652
3	-0.268	0.001***

***, **, and * implies a significance level of 1%, 5%, and 10% respectively.

In comparison to upgrade recommendations, on average, the downgrade recommendations have a more substantial impact in the short term as the absolute abnormal returns are much greater than those of upgrade recommendations. It is consistent with previous studies by (Moshirian et al., 2009; Murg et al., 2014; D. B. Vukovic et al., 2020; Womack, 1996). On the other hand, some studies shows that upgrades earn the highest returns and downgrades the lowest (Barber et al., 2010). According to Moshirian et al. (2009), the stronger price impacts of downgrade recommendations are explained by investors' risk aversion. It is common for risk-averse investors to give greater attention to negative signals when making investment decisions (Hoang et al., 2015; Mahmood et al., 2020; Parrino et al., 2005).

Table 4. Cumulative Average Abnormal Returns (CAARs): Recommendations for Downgrades

Event Window	CAAR (%)	p-value
CAAR (-10,130)	-6.220	0.000***
CAAR (-10,1)	-1.474	0.000***
CAAR (-5,5)	-2.127	0.000***
CAAR (-2,4)	-2.294	0.000***
CAAR (-1,1)	-1.813	0.000***
CAAR (0,1)	-1.664	0.000***
CAAR (2,130)	-4.746	0.000***
CAAR (5,130)	-4.281	0.000***

***, **, and * implies a significance level of 1%, 5%, and 10% respectively.

Table 4 summarizes the cumulative average abnormal returns (CAARs) associated with downgrade recommendations. As the table indicates, downgrade recommendations appear to influence the share price direction. All event windows are statistically significant at the 1% significance level, regardless of window length. On average, the price reaction varies between -1.47% for an eleven-day event window of (-10,0) and -6.22% for the 141-day event window of (-10,130). The statistically significant negative returns imply that investors who react to analyst downgrade recommendations in the Malaysian stock market can expect to retain value for up to six months.

Overall, the significant positive returns associated with upgrade recommendations and the significant negative returns associated with downgrade recommendations yield the same result as in Park et al. (2000). As a result, this study findings imply that analysts in Malaysia are capable of valuing stocks. Furthermore, the findings demonstrate that investors who react to analysts' recommendation upgrades and downgrades may earn

abnormal profits as the share price continues to move in the direction of analysts' recommendations. Additionally, most CAAR-based market reactions demand that investors respond quickly to profit from recommendations.

5. CONCLUSION

This study investigates analyst recommendation announcements in the Malaysian stock market and analyzes market reaction to these recommendations. The results of an analysis of 668 upgrade recommendations and 495 downgrade recommendations between 2010 and 2018 show that stock prices react significantly to recommendation upgrades and downgrades on the day of the recommendations and the following day. Over the six months after the recommendations, the stock price continues to move upward for upgrades and downward for downgrades. This study also discovers that downgrade recommendations appear to have more severe market reactions than upgrade recommendations. The more severe price drops resulting from downgrade recommendations suggest that investors are more likely to focus on unfavorable signals before trading. By estimating abnormal returns using a market model (MM), this study discovers that stock prices react considerably to changes in analyst recommendations. The stock price increases significantly to upgrade recommendations while significantly decreases following downgrade recommendations. As a result, investors might act on the recommendations in order to generate abnormal returns in the Malaysian stock market.

The findings of this study carry beneficial implications for investors. The implication is that investors could rely on the analysts' informational edge to make informed investment decisions. Given that investors frequently lack the knowledge to analyze stocks, it is crucial for them to employ the value-enhancing trading strategies to help them increase their wealth. Thus, incorporating the analysts' recommendation in their trading strategy may help them to earn higher profits. In terms of policy implications, it has been established that implementing investment adviser licensing requirements by the Securities Commissions (SC) for intermediaries intending to engage in the capital market appears to be effective. The added value offered by analysts through their recommendations in this study proves that the Securities Commission's (SC) rules and regulations are adhered to, as analysts should not simply produce reports that are of no value to investors.

In terms of the efficient market hypothesis (EMH), the findings indicate that the hypothesis of strong form market efficiency does not hold. This conclusion is based on the findings which show that analysts' recommendations do add value. In order to earn abnormal returns, investors should trade once the recommendations are made public, as significant abnormal returns are observed over a period of six months. Future research should focus on investigating the drivers of this market's reaction.

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