

Yahoo Finance DJIA Stock Analysts above Average Buy Recommendation Portfolio

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Abstract

A stock portfolio was chosen by using Yahoo Finance analysts above average recommendations of the 30 Dow Jones Industrial Average (DJIA) stocks. The four stocks were selected with recommendations of 1.7-1.9 on September 10, 2019. Their price increases (decreases) were computed for 2019-20. The four stocks selected were Microsoft, Merck, Visa, and McDonalds.

From 2019-20, the Yahoo Finance DJIA stock analysts above average buy recommendation portfolio yielded 16% on average. Since the Yahoo Finance DJIA stock analysts above average buy recommendation portfolio's returns were positive, the model could be used for selecting investments.

Introduction

A stock portfolio was chosen by using Yahoo Finance's Dow Jones Industrial Average (DJIA) stock analysts above average buy recommendations: 1 = strong buy, 2 = buy, 3 = hold, 4 = underperform and 5 = sell. The four stocks were selected out of the 30 companies in the DJIA with a 2 (buy) or higher average recommendation on September 10, 2019. Their price increases (decreases) were computed for 2019-20.

Related Literature

Numerous studies have been conducted to attempt to find ways of selecting the right stocks.

Articles have demonstrated that Value Line's #1 timeliness rating could be used to pick above average returns.¹

Long-term studies have been conducted which show large company stocks, such as those listed on the NYSE, to underperform small company stocks.²

Dortman discovered investment advisory recommendations to be wrong. When 60 percent or more of the advisory services are bearish, an investor should expect stock prices to go up. Furthermore, when only 15 percent or fewer are bearish, investors should expect a market decline.³

Some studies have shown some publicly available information to be of value. Barron's Confidence Index is cited of how trading in the bond market can precede stock prices. Barron's Confidence Index equals the yield on 10 top-grade corporate bonds divided by the yield on 40 intermediate-grade bonds. As the Confidence Index approaches 100%, bond investors are not expecting a recession. Therefore, stock prices should be going higher.⁴

Short sales by specialists are a sign to divest.⁵

Just watching the Super Bowl is another way to pick stocks. Between 1967-97, when the National Football Conference (NFC) won, the stock market went up 22 out of 24 years. In years when the American Football Conference (AFL) won, the stock market went down 6 out of 7 years.⁶ Although, all of this was probably just a coincidence.

Buying merger and acquisition candidates can be rewarding. Researchers have consistently found above average returns for acquisition candidates.⁷ While approximately two-thirds of the price gain occurs before public announcement,⁸ returns of 15 percent or more may be available.⁹ Mandelker found that the acquiring company's stock did not yield above average returns.¹⁰

Studies by Miller and Reilly,¹¹ Ibbotson, Sindelar, and Ritter,¹² and Muscarella and Vetsuypens,¹³ have indicated positive excess returns on new stock issues.

Research by Ying, Lewellen, Schlarbaum, and Lease suggested there are substantial profits to be made even after announcement of a new exchange listing, such as a stock going from trading on the over-the-counter market to the New York Stock Exchange (NYSE).¹⁴

Can stock repurchases be used to make money or not? Much of the early research said no.¹⁵ Other studies based on data from the 1970s and 1980s took a more positive viewpoint.¹⁶ Ikenberry, Lakonishok, and Vermaelen gave only a conditionally positive response.¹⁷ For value-oriented stocks with solid fundamentals, the average excess return was about 45% over a four-year time horizon. For high-flying glamour stocks, the returns were neutral to slightly negative.

Banz found small NYSE firms in terms of market capitalization (bottom 20%) to provide the highest returns.¹⁸ Reinganum discovered similar results.¹⁹

Peavy and Goodman argued that low P-E ratios yield high returns.²⁰

Studies have shown high beta stocks to outperform average and low beta stocks in market upturns and underperform them in downturns.²¹

While research in this investment area is extensive, none of the previous work has selected companies by using Yahoo Finance's stock analysts above average buy (2) recommendations in attempting to select high portfolio returns.

Methodology

The four stocks selected with 2 or higher recommendations were Microsoft, Merck, Visa and McDonald's (see Table 1). Their price increases (decreases) were computed for 2019-20.

Stock prices (shown in Table 1) were obtained online from Yahoo Finance.²² The price increase/decrease²³ or rate of return/loss was measured as:

$$\text{Rate of return} = \frac{\text{Ending price} - \text{Beginning price}}{\text{Beginning price}}$$

As an example, Microsoft increased from \$138.03 in 2019 to \$204.65 in 2020 (see Table 1). Using the preceding formula:

$$\frac{\$204.65 - \$138.03}{\$138.03} = 48\%$$

Results

From 2019-20, the Yahoo Finance above average buy recommendation portfolio yielded 16% on average.

Conclusion

Since the Yahoo Finance DJIA stock analysts above average buy recommendation portfolio's returns were positive, the model could be used for selecting investments.²⁴

Table 1**YAHOO FINANCE DJIA STOCK ANALYSTS ABOVE AVERAGE BUY RECOMMENDATION PORTFOLIO 16% AVERAGE ANNUAL STOCK PRICE INCREASE**

<u>Stock</u>	<u>Sept. 10, 2019 Average Recommendation</u>	<u>Sept. 10 2019 Prices</u>	<u>Sept. 10 2020 Prices</u>	<u>Annual Price Change</u>
Microsoft	1.7	\$138.03	\$204.65	48%
Merck	1.7	83.81	83.49	0
Visa	1.8	178.29	201.27	13
McDonald's	1.9	213.53	216.84	<u>2</u>
<i>Average</i>				<i>16</i>

¹ Fisher Black, "Yes, Virginia, There is Hope: Test of the Value Line Ranking System," Financial Analysts Journal, September-October 1973, pp. 10-14; Clark Holloway, "A Note on Testing an Aggressive Strategy Using Value Line Ranks," Journal of Finance, June 1981, pp. 711-19; and Scott E. Stickel, "The Effect of Value Line Investment Survey Rank Changes on Common Stock Prices," Journal of Financial Economics, March 1985, pp. 121-43.

² Stocks, Bonds, Bills, and Inflation: 1996 Yearbook (Chicago: Ibbotson Associates, 1996). Fundamentals of Financial Management, Eugene F. Brigham and Joel F. Houston, 8th edition, pp. 155-91 and Fundamentals of Investment Management, 6th edition, Geoffrey A. Hirt and Stanley B. Block, pp. 717-742.

³ John R. Dortman, "The Stock Market Sign Often Points the Wrong Way," The Wall Street Journal, January 26, 1989, C1.

⁴ Barron's, May 26, 1997, Dow Jones & Company. Fundamentals of Investment Management, 6th edition, Geoffrey A. Hirt and Stanley B. Block, pp. 260-2.

⁵ Block and Hirt, p. 262.

⁶ Thomas M. Krueger and William F. Kennedy, "An Examination of the Super Bowl Stock Market Portfolio," Journal of Finance, June 1990, pp. 691-97.

⁷ Gershon Mandelker, "Risk and Return: The Case of Merging Firms," Journal of Financial Economics, December 1974, pp. 303-35; Donald R. Kummer and J. Ronald Hoffmeister, "Valuation Consequences of Cash Tender Offers," Journal of Finance, May 1978, pp. 505-6; Peter Dodd, "Merger Proposals, Management Discretion and Stockholder Wealth," Journal of Financial Economics, December 1980, pp. 105-38, and Steven Kaplan, "The Effect of Management Buyouts on Operating Performance and Value," Journal of Financial Economics, October 1989, pp. 217-54. Also, Henry Oppenheimer and Stanley Block, "An Examination of Premiums and Exchange Ratios Associated with Merger Activity during the 1975-78 Period," Financial Management Association Meeting, 1980.

⁸ "Two Former Morgan Stanley Executives Accused of Plot Involving Takeover Data," The Wall Street Journal, February 4, 1981, p. 2.

⁹ Block and Hirt, pp. 276-8.

¹⁰ Mandelker, "Risk and Return," pp. 303-35. See also Anup Agrawal, Jeffrey F. Jaffe, and Gershon Mandelker,

“The Post-Merger Performance of Acquiring Firms,” *Journal of Finance*, September 22, 1992, pp. 1605-21.

¹¹ Robert E. Miller and Frank K. Reilly, “An Examination of Mispricing Returns, and Uncertainty for Initial Public Offerings,” *Financial Management*, Winter 1987, pp. 33-38.

¹² Roger G. Ibbotson, J. Sindelar, and Jay R. Ritter, “Initial Public Offerings,” *Journal of Applied Corporate Finance*, Fall 1988, pp. 37-45.

¹³ Chris Muscarella and Mike Vetsuypens, “A Simple Test of Barron’s Model of IPO Underpricing,” *Journal of Financial Economics*, September 1989, pp. 125-35.

¹⁴ Louis K. W. Ying, Wilbur G. Lewellen, Gary G. Schlarbaum, and Ronald C. Lease, “Stock Exchange Listing and Securities Returns,” *Journal of Financial and Quantitative Analysis*, September 1977, pp. 415-32.

¹⁵ Charles D. Ellis and Allen E. Young, *The Repurchase of Common Stock* (New York: The Ronald Press, 1971), pp. 61 and 156.

¹⁶ Terry E. Dielman, Timothy J. Nantell, and Roger L. Wright, “Price Effects of Stock Repurchasing: A Random Coefficient Regression Approach,” *Journal of Financial and Quantitative Analysis*, March 1980, pp. 175-89; Larry Y. Dann, “Common Stock Repurchases: An Analysis of Returns to Bondholders and Stockholders,” *Journal of Financial Economics*, June 1981, pp. 113-38; Theo Vermaelen, “Common Stock Repurchases and Market Signaling: An Empirical Study,” *Journal of Financial Economics*, June 1981, pp. 139-83; and R. W. Masulis, “Stock Repurchase by Tender Offer: An Analysis of the Causes of Common Stock Price Changes,” *Journal of Finance*, May 1980, pp. 181-208.

¹⁷ David Ikenberry, Josef Lakonishok, and Theo Vermaelen, “Market Underreaction to Open Market Share Repurchases,” *Journal of Financial Economics*, October 1995, pp. 181-208.

¹⁸ Rolf W. Banz, “The Relationship between Returns and Market Value of Common Stocks,” *Journal of Financial Economics*, March 1981, pp. 3-18.

¹⁹ Marc R. Reinganum, “Misspecification of Capital Asset Pricing—Empirical Anomalies Based on Earnings Yield and Market Values,” *Journal of Financial Economics*, March 1981, pp. 19-46. Also, “A Direct Test of Roll’s Conjecture on the Firm Size Effect,” *Journal of Finance*, March 1982, pp. 27-35; and “Portfolio Strategies Based on Market Capitalization,” *Journal of Portfolio Management*, Winter 1983, pp. 29-36.

²⁰ John W. Peavy III and David A. Goodman, “The Significance of P/Es for Portfolio Returns,” *Journal of Portfolio Management*, Winter 1983, pp. 43-47.

²¹ *Fundamentals of Financial Management*, Eugene F. Brigham and Joel F. Houston, 8th edition, pp. 155-91 and *Fundamentals of Investment Management*, 4th edition, Geoffrey A. Hirt and Stanley B. Block, pp. 717-742.

²² *Yahoo! Finance*, 2019-20.

²³ Dividends were excluded to expedite the research - does not materially affect comparison results (virtually nil for most stocks in the model and only an average of approximately 2% yield for DJIA and S&P 500).

²⁴ However, past performance is no guarantee of future results.