Public Abstract

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This dissertation explores the market reaction to analyst coverage initiations and the factors leading to coverage initiations by analysts for newly public banking stocks. I use two cases to investigate the timeliness and reaction to analyst coverage initiations. The first case serves as a means to examine how the difference in the information environment affects analyst coverage using the expiration of the quiet period to judge analyst behavior for banks. The second case allows me to look longitudinally at analyst coverage initiations and examine the factors that influence the time until coverage is initiated and if the market reacts differently to coverage with more elapsed time between the expiration of the quiet period and the first initiation of analyst coverage.

For the first case, I find that analyst coverage is initiated for 15 percent of banks at the end of the quiet period and those banks experience five-day aggregate returns of -43 basis points versus 11 basis points for banks without analyst coverage initiations. Contrary to prior research, I find that underpricing is not indicative of analyst coverage. As the number of operational activities for banks increase with legislative changes, analyst coverage increases.

For the second case, I find that banks with either high insider ownership after the IPO, lower leverage after the IPO, or larger size tend to have earlier coverage initiations. Banks with stock prices deviating from fundamental value do not have a strong tendency to have rapid analyst coverage following the expiration of the quiet period. However, the evidence suggests that extreme deviation from fundamental value increases the time until analyst coverage is initiated. I find that, while the cumulative aggregate returns for banks when analysts initiate coverage is negative, there is no indication that the market is more informed by the initiation of coverage.