

**Management Science Online Appendix Tables:  
Hiring Cheerleaders: Board Appointments of "Independent"  
Directors**

**Table A1: Summary Statistics**

This table shows summary statistics for the sample of sell side analysts and their covered stocks between 1993 and 2006. Panel A reports the composition of the sample. Panels B and C report board and firm-level characteristics for the sample of firms that subsequently appoint an analyst who used to cover them to the board of directors, and for the sample of all other firms ("Others"). Panel D reports analyst characteristics for the sample of analysts who are appointed to the board of a firm they previously covered, and for the sample of all other analysts ("Others"). *Brokerage Size* is the total number of analysts issuing recommendations at the given analyst's brokerage house. *Experience* measures an analyst's history of recommending stocks on I/B/E/S at the time of the recommendation, in years.

Panel A: Sample Composition		
Number of firms covered by appointed analysts		1,163
Number of firms appointing analysts to the board		51
Number of analysts covering appointing firms		1,212
Panel B: Board Characteristics		
	Sample of firms appointing an analyst to their board	Others
Average size of board	6.34	6.55
Percentage of independent directors on board	0.57	0.49
Panel C: Firm Characteristics		
	Sample of firms appointing an analyst to their board	Others
Number of recommendations	4,716	416,226
Market value of equity percentile	0.83	0.78
Book-to-market percentile	0.34	0.39
12-month prior return percentile	0.56	0.54
Number of analysts covering stock	10.81	9.27
Panel D: Analyst Characteristics		
	Sample of analysts appointed to board of firm they previously covered	Others
Number of stocks covered	16.9	12.6
Brokerage size	60.4	57.5
Experience in years	4.4	4.3

**Table A2: Firm and Analyst Board Appointments**

This table shows the industry distribution of the firms that appoint their former sell side analysts to their board of directors. The total number is greater than 51 as a number of the firms switch industry classifications over the 14 year sample.

Industry Distribution		
Industry	Frequency	Percent
Automobiles and Trucks	1	1.47
Banking	3	4.41
Business Services	6	8.82
Chemicals	2	2.94
Computer Software	3	4.41
Construction Materials	1	1.47
Electrical Equipment	1	1.47
Electronic Equipment	1	1.47
Entertainment and Theatre	3	4.41
Finance and Trading	7	10.29
Food Products	2	2.94
Healthcare Services	1	1.47
Household and Consumer Goods	2	2.94
Insurance	1	1.47
Iron and Steel Works	2	2.94
Machinery	5	7.35
Measuring and Control (Laboratory) Equipment	2	2.94
Medical Equipment	1	1.47
Non-Metallic and Industrial Metal Mining	1	1.47
Petroleum and Natural Gas	7	10.29
Pharmaceutical Products	2	2.94
Precious Metals	1	1.47
Printing and Publishing	1	1.47
Recreation and Toys	1	1.47
Restaurants, Hotels, Motels	2	2.94
Retail	3	4.41
Transportation	1	1.47
Utilities	1	1.47
Wholesale	4	5.88
Total	68	100

**Table A3: Time-Series Distribution of Analyst Appointments**

This table reports the time-series distribution of sell-side analyst board appointments over our sample period, from 1993 to 2006.

Appointment Year	Frequency	Percent
1995	1	1.96
1996	1	1.96
1997	3	5.88
1998	3	5.88
1999	3	5.88
2000	4	7.84
2001	10	19.61
2002	7	13.73
2003	7	13.73
2004	2	3.92
2005	6	11.76
2006	4	7.84
Total	51	100

**Table A4: Appointed Analyst Recommendations  
(For Analysts Who Did and Did Not Cover The Firm That Appointed Them)**

The dependent variable in each regression is the level of recommendation, which ranges between 1 and 5, and which we reverse-score such that 1=Strong Sell, 2=Sell, 3=Hold, 4=Buy, and 5=Strong Buy. The key variable of interest is in the first row: *Appointed Rec* equals 1 if the analyst recommending the stock in question is subsequently appointed to the board of directors of that firm, and 0 otherwise. *Appointed Rec (Did Not Cover)* equals 1 if the analyst in question was subsequently appointed to the board of directors of any firm (but none of the ones he previously covered). The other independent variables are as follows: *Size* measures the log(ME) and *B/M* measures the log(BE/ME), of the firm being recommended. *Past Month Return* and *Past Year Return* measure the given stock's return in the prior month, and 11-months prior to that month respectively, from the recommendation date. *Brokerage Size* is the total number of analysts that work at the given analyst's brokerage house. At the time of each recommendation, *Experience* measures an analyst's history of recommending stocks on I/B/E/S (in years), while *Exper. Rec. Firm* measures the number of years an analyst has been recommending a given stock. *All Star* is a categorical variable equal to 1 if the analyst was voted an all star analyst in the October issue of Institutional Investor magazine for the given year. *Connected to Firm* is a categorical variable equal to 1 if the analyst attended the same school as one of the senior officers of the firm being recommended. *Affiliation* is a categorical variable that measures whether or not the given firm has an underwriting relationship with the analyst's brokerage. Fixed effects for recommendation month (Time), and for the firm (Firm) are included where indicated. All standard errors are adjusted for clustering at the recommendation month level, and t-stats using these clustered standard errors are included in parentheses below the coefficient estimates. 1%, 5%, and 10% statistical significance are indicated with \*\*\*, \*\*, and \*, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
Appointed Rec	0.400*** (5.23)	0.400*** (5.23)	0.435*** (5.14)	0.435*** (5.14)	0.417*** (3.21)	0.418*** (3.22)
Appointed (Did Not Cover)		-0.012 (0.53)		0.026 (1.07)		0.049 (1.04)
Size			0.079*** (8.13)	0.079*** (8.13)	0.092*** (7.53)	0.092*** (7.53)
B/M			-0.022*** (3.38)	-0.022*** (3.38)	-0.006 (0.57)	-0.005 (0.56)
Past Month Return			0.144*** (6.50)	0.144*** (6.50)	0.116*** (3.06)	0.115*** (3.05)
Past Year Return			0.095*** (12.29)	0.095*** (12.29)	0.082*** (8.51)	0.081*** (8.51)
Brokerage Size			-0.001*** (6.33)	-0.001*** (6.35)	-0.001*** (8.23)	-0.001*** (8.29)
Experience			0.002 (1.63)	0.002 (1.62)	0.002 (1.04)	0.002 (1.04)
Exper. Rec. Firm			-0.024*** (9.41)	-0.024*** (9.41)	-0.027*** (6.25)	-0.027*** (6.29)
All Star			-0.007 (0.52)	-0.007 (0.52)	0.003 (0.14)	0.003 (0.14)
Connected to Firm					-0.015 (1.26)	-0.015 (1.24)
Affiliation			0.115*** (6.56)	0.114*** (6.54)	0.115*** (5.04)	0.115*** (5.04)
Fixed Effect	Time	Time	Time	Time	Time	Time
Fixed Effect	Firm	Firm	Firm	Firm	Firm	Firm
Adjusted R2	0.104	0.104	0.115	0.115	0.125	0.125
No. of Observations	421,098	421,098	371,947	371,974	65,908	65,908

**Table A5: Appointed Analyst Recommendation Performance**

The dependent variable in each column is the one-year return following a recommendation change (*Upgrade or Downgrade*). In columns 1-3, the changes are upgrades from consensus (*Upgrade*), and in columns 4-6, the changes are downgrades from consensus (*Downgrade*). The key variable of interest is the interaction term in the first two rows: *Appointed Rec\*Upgrade (Downgrade)*, which equals 1 if the analyst recommending the stock in question is subsequently appointed to the board of directors of that firm, and the recommendation in question is an upgrade (or downgrade) from consensus. Dummy variables for *Appointed Rec* and *Upgrade (Downgrade)* are also included. The other independent variables are those used in Table IV, and are described there. Fixed effects for recommendation year (Time), and for the analyst (Analyst), are included where indicated. All standard errors are adjusted for clustering at the recommendation year level, and t-stats using these clustered standard errors are included in parentheses below the coefficient estimates. 1%, 5%, and 10% statistical significance are indicated with \*\*\*, \*\*, and \*, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
Appointed Rec*Upgrade	-0.195** (2.35)	-0.182** (2.30)	-0.146** (2.05)			
Appointed Rec*Downgrade				-0.038 (0.50)	0.050 (0.57)	0.063 (0.67)
Upgrade	0.094*** (3.12)	0.073*** (3.57)	0.039*** (2.97)			
Downgrade				0.013 (0.61)	0.017 (0.95)	0.000 (0.01)
Appointing Rec	0.133* (1.82)	0.127** (2.21)	0.106* (1.86)	0.014 (0.22)	0.016 (0.35)	0.017 (0.35)
Size	0.015* (1.83)	0.011 (1.55)	0.015** (2.28)	0.017** (2.05)	0.012* (1.67)	0.016** (2.35)
B/M	0.076** (2.47)	0.074*** (3.03)	0.059*** (2.78)	0.079** (2.49)	0.076*** (3.04)	0.060*** (2.81)
Past Month Return	0.000 (1.33)	-0.001*** (3.75)	0.000 (1.32)	0.000 (1.43)	-0.001*** (3.77)	0.000 (1.32)
Past Year Return	-0.001 (0.33)	0.000 (0.01)	-0.011 (1.70)	-0.002 (0.36)	0.000 (0.01)	-0.012* (1.74)
Brokerage Size	0.012* (1.68)	0.009* (1.69)	0.006 (1.23)	0.013* (1.76)	0.010* (1.77)	0.006 (1.31)
Experience	0.135** (1.99)	0.042 (0.85)	-0.004 (0.07)	0.135** (1.97)	0.042 (0.84)	-0.004 (0.09)
Exper. Rec. Firm	0.011 (0.11)	-0.037 (0.47)	-0.053 (0.77)	0.005 (0.06)	-0.041 (0.53)	-0.055 (0.82)
All Star	0.023 (1.35)	0.008 (0.72)	0.004 (0.47)	0.024 (1.38)	0.009 (0.86)	0.005 (0.52)
Affiliation	-0.138** (2.04)	-0.177** (2.82)	-0.140** (2.14)	-0.141** (2.08)	-0.179*** (2.85)	-0.140** (2.14)
Recommendation Level	-0.055** (2.41)	-0.042** (2.35)	-0.016 (1.20)	-0.016 (1.54)	-0.010 (1.06)	0.000 (0.06)
Fixed Effect		Analyst	Analyst		Analyst	Analyst
Fixed Effect			Time			Time

**Table A6: Appointed Analyst Recommendations  
(Sorting By Gap Between Analyst Coverage and Subsequent Appointment)**

The dependent variable in each regression is the level of recommendation, which ranges between 1 and 5, and which we reverse-score such that 1=Strong Sell, 2=Sell, 3=Hold, 4=Buy, and 5=Strong Buy. The key variable of interest is in the first row: *Appointed Rec (More Recent)* equals 1 if the analyst recommending the stock in question is subsequently appointed to the board of directors of that firm \*and\* is in the lowest category of gap; the variable *gap* equals the number of days between ceasing coverage of the stock in question and being subsequently appointed as a board member. Gap categories are defined using decile and quintile breakpoints across appointed analysts based on this gap variable. The other independent variables are the same as the main specification in the paper: Column 5 of Table 4. Fixed effects for recommendation month (Time), and for the firm (Firm) are included where indicated. All standard errors are adjusted for clustering at the recommendation month level, and t-stats using these clustered standard errors are included in parentheses below the coefficient estimates. 1%, 5%, and 10% statistical significance are indicated with \*\*\*, \*\*, and \*, respectively.

	(1)	(2)
Appointed Rec (More Recent: Gap Decile 1)	0.724*** (5.87)	
Appointed Rec (Less Recent: Gap Deciles 2-10)	0.367*** (3.76)	
Appointed Rec (More Recent: Gap Quintile 1)		0.645*** (6.03)
Appointed Rec (Less Recent: Gap Quintiles 2-5)		0.359*** (3.43)
Controls	YES	YES
Fixed Effect	Time	Time
Fixed Effect	Firm	Firm
Adjusted R2	0.115	0.115
No. of Observations	371,947	371,947

**Table A7: Abnormal Returns Following Analyst Appointments**

This table presents value-weighted calendar-time monthly portfolio returns for two portfolios (After Appointment and Non-Appointment), as well as for a spread portfolio (Spread) which goes long the After Appointment portfolio and short the Non-Appointment portfolio each month. Firms that appoint analysts to the board enter the After Appointment portfolio in the month following their appointment, and remain in the portfolio for a year. The Non-Appointment portfolio consists of a matched sample that is constructed by matching appointing firms to firms in the same Fama-French 49 industry category, same size quintile, same book-to-market quintile, and same discretionary accruals quintile, but who did *not* appoint a cheerleader in the year of a cheerleader appointment. Panel A uses actual appointment dates. Panel B uses predicted appointment dates, obtained from two-stage least squares regressions that instrument for the appointment for a cheerleader, as in Table 5. The first stage is a regression of actual appointment months (of cheerleader analysts) on a categorical variable *Post-Global Settlement* that is equal to 1 for those years directly after the Global Settlement (April 2003-April 2005), and zero otherwise, plus the same control variables used in Table 5. The firm-month with the maximum predicted value of appointment is then designated as the instrumented (or predicted) appointment date. 3-factor (Fama and French (1996), 4-factor (Carhart (1997), and 5-factor (Pastor and Stambaugh (2003)) alphas are computed, and 1%, 5%, and 10% statistical significance are indicated with \*\*\*, \*\*, and \*, respectively.

Panel A: Value-Weighted Calendar Time Monthly Portfolio Returns (Using Matched Control Sample and Actual Appointment Dates)				
	raw returns	3-factor Alpha	4-factor Alpha	5-factor alpha
After Appointment	-0.0021 (0.26)	-0.0135* (1.92)	-0.0116 (1.89)	-0.0172** (2.06)
Non-Appointment (MATCHED SAMPLE)	0.0131*** (3.22)	0.0001 (0.05)	-0.0001 (0.07)	0.0000 (0.03)
Spread	-0.0152** (2.13)	-0.0136* (1.92)	-0.0115 (1.60)	-0.0172** (2.07)

  

Panel B: Value-Weighted Calendar Time Monthly Portfolio Returns (Using Matched Control Sample and Predicted Appointment Dates)				
	raw returns	3-factor alpha	4-factor Alpha	5-factor alpha
After Appointment	0.0084 (0.96)	-0.0046 (0.56)	-0.0034 (0.41)	-0.0020 (0.22)
Non-Appointment (MATCHED SAMPLE)	0.0121*** (3.03)	-0.0002 (0.09)	-0.0004 (0.25)	-0.0008 (0.45)
Spread	-0.0037 (0.45)	-0.0045 (0.53)	-0.0030 (0.34)	-0.0012 (0.12)

**Table A8. Average Event-Time Returns Surrounding Analyst Board Appointments**

This table presents average event-time returns (and average abnormal event-time returns) surrounding analyst board appointments. Full sample refers to the full sample of analyst board appointments. Analyst optimism groups are defined using tercile breakpoints based on an analyst's relative optimism on the appointing firm; relative optimism is equal to the analyst's average recommendation on the appointing firm minus the average of all analysts' recommendations on the appointing firm.

Event Date	Return	Full Analyst Sample	Low Analyst Optimism	Mid Analyst Optimism	High Analyst Optimism
<i>t</i> -2	Raw Return	0.0007 ( <i>t</i> =0.08)	0.0097 ( <i>t</i> =0.71)	-0.0079 ( <i>t</i> =0.41)	0.0002 ( <i>t</i> =0.02)
	EW Excess Ret	-0.0021 ( <i>t</i> =0.27)	0.0091 ( <i>t</i> =0.72)	-0.0120 ( <i>t</i> =0.62)	-0.0033 ( <i>t</i> =0.31)
	VW Excess Ret	-0.0004 ( <i>t</i> =0.06)	0.0127 ( <i>t</i> =1.01)	-0.0124 ( <i>t</i> =0.63)	-0.0012 ( <i>t</i> =0.11)
<i>t</i> -1	Raw Return	-0.0014 ( <i>t</i> =0.26)	0.0058 ( <i>t</i> =0.44)	-0.0020 ( <i>t</i> =0.40)	-0.0051 ( <i>t</i> =0.68)
	EW Excess Ret	-0.0023 ( <i>t</i> =0.42)	0.0051 ( <i>t</i> =0.38)	-0.0010 ( <i>t</i> =0.21)	-0.0057 ( <i>t</i> =0.70)
	VW Excess Ret	-0.0018 ( <i>t</i> =0.34)	0.0055 ( <i>t</i> =0.40)	-0.0017 ( <i>t</i> =0.33)	-0.0032 ( <i>t</i> =0.40)
<i>t</i>	Raw Return	-0.0022 ( <i>t</i> =0.35)	-0.0036 ( <i>t</i> =0.76)	-0.0073 ( <i>t</i> =0.44)	0.0089 ( <i>t</i> =0.95)
	EW Excess Ret	-0.0032 ( <i>t</i> =0.53)	-0.0035 ( <i>t</i> =0.71)	-0.0083 ( <i>t</i> =0.50)	0.0088 ( <i>t</i> =1.02)
	VW Excess Ret	-0.0029 ( <i>t</i> =0.47)	-0.0024 ( <i>t</i> =0.45)	-0.0098 ( <i>t</i> =0.59)	0.0098 ( <i>t</i> =1.12)
<i>t</i> +1	Raw Return	0.0009 ( <i>t</i> =0.12)	-0.0049 ( <i>t</i> =0.54)	0.0227 ( <i>t</i> =1.53)	-0.0142 ( <i>t</i> =0.81)
	EW Excess Ret	-0.0003 ( <i>t</i> =0.04)	-0.0054 ( <i>t</i> =0.52)	0.0253 ( <i>t</i> =1.58)	-0.0190 ( <i>t</i> =0.97)
	VW Excess Ret	0.0003 ( <i>t</i> =0.04)	-0.0051 ( <i>t</i> =0.49)	0.0263 ( <i>t</i> =1.57)	-0.0196 ( <i>t</i> =0.92)
<i>t</i> +2	Raw Return	0.0028 ( <i>t</i> =0.55)	0.0056 ( <i>t</i> =0.63)	-0.0020 ( <i>t</i> =0.18)	0.0014 ( <i>t</i> =0.17)
	EW Excess Ret	0.0004 ( <i>t</i> =0.07)	0.0003 ( <i>t</i> =0.04)	-0.0033 ( <i>t</i> =0.32)	0.0024 ( <i>t</i> =0.26)
	VW Excess Ret	0.0024 ( <i>t</i> =0.46)	0.0016 ( <i>t</i> =0.18)	-0.0036 ( <i>t</i> =0.34)	0.0088 ( <i>t</i> =0.83)
Cumulative ( <i>t</i> -2: <i>t</i> +2)	Raw Return	-0.0043 ( <i>t</i> =0.32)	0.0086 ( <i>t</i> =0.39)	-0.0042 ( <i>t</i> =0.15)	-0.0135 ( <i>t</i> =0.46)
	EW Excess Ret	-0.0129 ( <i>t</i> =0.97)	0.0016 ( <i>t</i> =0.07)	-0.0072 ( <i>t</i> =0.27)	-0.0220 ( <i>t</i> =0.74)
	VW Excess Ret	-0.0080 ( <i>t</i> =0.59)	0.0082 ( <i>t</i> =0.35)	-0.0091 ( <i>t</i> =0.34)	-0.0112 ( <i>t</i> =0.36)

