Lingnan University 嶺南大學 香港 Hong Kong

Faculty of Business 嶺南大學商學院

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Insight from Foresight: An Ex-Ante Measure of Analyst Forecast Optimism

This paper introduces an ex-ante measure of analyst earnings forecast optimism, shifting the focus from retrospective evaluations to a prospective approach. Conventional measures of analyst optimism typically define optimism only after earnings are realized, which is often too late for stakeholder intervention. In contrast, the proposed ex-ante measure compares initial forecasts to prior-year earnings to capture optimism at the beginning of the fiscal year. Using a framework that deconstructs forecast optimism into analyst bias, growth expectations and unanticipated shocks, we document that while both ex-ante and ex-post optimism contain a bias element, analyst bias is not the primary driver of optimism, despite being the primary focus of prior literature. Instead, exante optimism largely reflects analysts' expectations of growth rooted in firm fundamentals, as evidenced by its positive association with future earnings growth and abnormal stock returns. Furthermore, because the ex-ante measure shares a bias component with ex-post optimism, it serves as a predictor for subsequent ex-post optimism and the systemic walkdown of forecasts. This helps stakeholders to identify potential ex-post optimism early and mitigate associated negative consequences. We further demonstrate the practical utility of this ex-ante measure in cross-sectional analyses, showing it is most effective in predicting fundamentals when analyst consensus is high and in less complex industries.

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Lian Fen Lee obtained her Ph.D. from the University of Michigan. Her research interests are in the areas of financial reporting, firm communications, and the role of information intermediaries. Her research has been published in leading academic journals including *The Accounting Review*, *Journal of Accounting and Economics*, and *Journal of Accounting Research*, and has received the Competitive Manuscript Award from the American Accounting Association. Lian Fen is currently an associate editor at *Journal of Accounting and Economics* and on the editorial boards at *The Accounting Review*, *Review of Accounting Studies and Accounting Horizons*. She has been recognized with multiple teaching accolades and awards for reviewing excellence from *The Accounting Review*, *Journal of Accounting Research*, *Contemporary Accounting Research*, *Management Science and Review of Accounting Studies*. Prior to pursuing her doctoral studies, Lian Fen worked in the Singapore offices of Arthur Andersen and Ernst and Young.

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