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Abstract
Because of the developing of internet, more and more investors could receive the latest news and stock recommendation on the internet instantly. Therefore, this essay would like to discuss whether public could trust the stock recommendation on the internet on three areas. Firstly, using the market model in event study to evaluate abnormal returns. Secondly, this research compares and tests the average returns of the recommended stocks on the internet with those of the stocks which have the similar industry characters. Then, we develop the conflict of interest index of each recommended stock and use the cross-section analysis to examine the determination of the conflict of interest.
The sample consists of 455 stocks which are recommended from CnYes (http://www.cnyes.com) and udn (http://money.udn.com) during the period from June to December in 2007. The number of recommended stocks consists 2175 times. Moreover, there are 170 times for neutral and observation invest suggestion.
The results of this research revealed that：
1. Using the event study of market model to examine the short term revenue and internet recommended, there are still some investment values on the internet recommendation.
2. During the period of time, compare individual stocks and internet recommended stocks, there are significant impact on average revenue rate on that week which revealed that internet recommendation have investment value. The only thing that investor should do is they need to use in short term to earn higher revenue. And in other investment suggestion, there are no significant impacts between internet recommendation revenue and other individual recommended average revenue.
3. Using the cross-section analysis have revealed that conflicts of interest was infected by the number of recommended, the ratio of foreign stocks ownership the ratio for local investors who hold the stocks, the relationship between Beta、individual stocks and other markets revenue. Therefore, investors should avoid investing individual stock which have lower ratio for the lower of ratio of foreign or local stocks ownership, or higher market risks for high market value. Moreover, investors should avoid believing the stockers' recommendation which have higher market ratio or higher own responsibility of dealing revenue. Because those stockers are keen to focus their own revenue, it is possibly having higher revenue conflict.
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