

Expertise, Task Structure and Market Anomalies

Dipankar Ghosh
University of Oklahoma

Lori Olsen
North Dakota State University

Literature shows that accounting accruals are mispriced and that increased analyst following does not mitigate this mispricing. Separately, the judgment and decision-making (J/DM) suggests that experts (analysts) will not perform better than novices when information is more complex. We combine these two streams of literature by examining whether analysts mitigate the mispricing of accruals when firm-specific earnings attributes have valuation implications for accruals that also differentiate those earnings on their complexity. Based on prior research, two attributes are used to calibrate firms' earnings on complexity: (1) R&D/total sales ratio and (2) international sales/total sales ratio. We show that when all firms are considered equally complex, analyst following is not a significant explanatory variable for accruals mispricing. However, when we segregate firms having R&D/sales (or international sales/total sales) and calibrate them by their complexity levels, analyst following matters. Specifically, mispricing is significantly mitigated when analyst following is high and complexity is low, but not when analyst following is high and complexity is high.