Internet Appendix

For

Cultural Proximity and the Processing of Financial Information

This Internet Appendix provides supplemental analyses and robustness tests to the main results presented in "Cultural Proximity and the Processing of Financial Information." The tables are organized as follows:

Table IA-1: Descriptive Statistics of the Full Sample

Table IA-2: Replicating Table 2 for the Full Sample

Table IA-1: Descriptive Statistics of the Full Sample

The sample period is 1990-2010. We report the summary statistics based on the full sample. T-statistics testing the difference in means between Chinese analysts and non-Chinese analysts, and between Chinese firms and U.S. firms, respectively, are based on uneven variance. Variables are defined in the Appendix B. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Analyst Characteristics

	Total	Mean	Chinese Analyst	Non-Chinese Analyst	T-statistics
# of Analysts	9,788		333	9,455	
# of Forecasts	1,651,985		33,186	1,618,799	
# of Firms Covered (Per Analyst)		16.50	10.49	16.71	10.14***
# of Chinese Firms Covered (Per Analyst)		0.19	1.89	0.13	-7.70***
# of Forecasts					
Per Analyst		168.78	99.66	171.21	8.10***
Per Analyst Per Year		30.65	24.40	30.82	10.68***
Chinese Firm Experience (in months)		2.22	6.65	2.13	-47.86***
Total Experience (in months)		80.72	61.06	81.12	65.42***
Analyst Forecast Error (%)		0.53	0.64	0.53	-12.43***

Panel B: Firm Characteristics

	Total	Mean	Chinese Firm	U.S. Firm	T-statistics
# of Firms	9,332		195	9,137	
# of Analysts Per Firm		17	9	17	10.69***
# of Forecasts					
Per Firm		177.02	67.22	179.37	12.91***
Per Firm Per Year		24.56	18.33	24.63	9.37***
Analyst Forecast Error (%)		0.53	0.96	0.53	-22.56***
Total Assets		6,175.79	1,374.06	6,233.49	20.36***
Market Value of Equity		4,077.06	791.81	4,101.48	24.25***
Leverage		0.54	0.33	0.54	26.52***

Panel C: Forecast Characteristics

	Total	Mean	Chinese Firm	U.S. Firm	T-statistics
# of Forecasts Issued	1,651,985		13,107	1,638,878	
By Chinese Analysts	33,186		4,017	29,169	
By Non-Chinese Analysts	1,618,799		9,090	1,609,709	

Table IA-1 continued.

Panel D: Distribution of Chinese Firms under Coverage by Brokerage Firms

Brokerage Firm	# of Chinese Firms Covered	% of Chinese Firms Covered	# of Chinese Analysts Employed	% of Analysts Employed as Chinese Analyst
Oppenheimer & Co.	80	5.46	12	6.06
Roth Capital Partners LLC.	77	5.25	10	7.81
Piper Jaffray	59	4.02	6	2.68
Brean Murray, Carret & Co.	49	3.34	12	12.37
Rodman & Renshaw LLC.	48	3.27	5	3.52
Global Hunter Securities, LLC	46	3.14	1	6.67
Deutsche Bank	33	2.25	15	2.72
Citi	32	2.18	26	3.11
UBS (US)	32	2.18	18	2.85
JP Morgan	32	2.18	17	2.82
Credit Suisse	30	2.05	15	2.19
Thinkequity LLC.	30	2.05	7	6.54
CIBC World Markets Corp.	29	1.98	12	3.64
Bear, Stearns & Co.	28	1.91	12	2.50
Morgan Stanley	26	1.77	11	1.36
Forun Technologies, Inc.	24	1.64	1	50.00
Maxim Group	22	1.50	4	16.00
Bank of America Securities LLC.	22	1.50	12	3.13
Virtua Research	22	1.50	2	2.47
Goldman Sachs & Co.	22	1.50	21	3.40
WR Hambrecht + Co	21	1.43	3	4.92
Merrill Lynch	21	1.43	12	0.86
Others				
Do not Employ Chinese Analysts	159	10.85	0	
Employ Chinese Analysts	522	35.61	226	
Total	1,466	100	460	

Table IA-2: Cultural Proximity and Forecast Accuracy using the Full Sample

This table relates analyst forecast accuracy to analyst's Chinese ethnic background based on the full sample. The sample period is 1990-2010. The dependent variable is analyst forecast error, calculated as the percentage of absolute value of the difference between forecasted and actual earnings, scaled by the average share price in the previous year. The other variables are defined in the Appendix B. Robust standard errors are double clustered at the firm and analyst levels and are reported in the parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)
Chinese Analyst	0.03**	0.05***	0.05***	0.05***	0.01**
	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)
Chinese Firm	0.12***	0.03	0.09**	0.07*	
	(0.04)	(0.04)	(0.04)	(0.04)	
Chinese Analyst × Chinese Firm	-0.08**	-0.10***	-0.09***	-0.08**	-0.02
	(0.03)	(0.03)	(0.03)	(0.03)	(0.01)
Log Chinese Firm Experience		0.01***	0.01***	0.01***	0.00***
		(0.00)	(0.00)	(0.00)	(0.00)
Log Forecast Horizon		0.05***	0.05***	0.05***	0.05***
		(0.00)	(0.00)	(0.00)	(0.00)
Log # of Firms Covered		-0.02***	-0.01***	-0.01***	-0.01***
		(0.00)	(0.00)	(0.00)	(0.00)
Log # of Revisions		0.00	-0.00	0.00	-0.02***
		(0.00)	(0.00)	(0.00)	(0.00)
Size of Coverage		-0.01***	-0.00***	-0.00***	-0.00***
		(0.00)	(0.00)	(0.00)	(0.00)
Earnings Change			-0.00	-0.00	0.00
			(0.00)	(0.00)	(0.00)
Size of Firm			-0.06***	-0.06***	-0.05***
			(0.00)	(0.00)	(0.01)
Leverage of Firm			0.36***	0.35***	0.34***
			(0.02)	(0.02)	(0.02)
Industry Fixed Effects	Yes	Yes	Yes	Yes	No
Quarter Fixed Effects	Yes	Yes	Yes	Yes	Yes
Broker Fixed Effects	No	No	No	Yes	Yes
Firm Fixed Effects	No	No	No	No	Yes
Observations	1,233,070	1,232,898	973,118	971,488	971,488
R-squared	0.078	0.131	0.178	0.186	0.408