How Mad is *Mad Money*:
Jim Cramer as a Stock Picker and Portfolio Manager

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Abstract

We examine a widely popular and controversial source of investment advice, buy and sell recommendations made by Jim Cramer on his popular nightly *Mad Money* show on CNBC. Our results show that Cramer's recommendations impact share prices of the companies that he mentions. The effects are short-lived and reverse for buy recommendations, although they persist for sell recommendations. Returns for a portfolio of Cramer recommendations are significantly different from zero for some sub periods. Factor analysis suggests that these returns are driven by beta exposure, smaller stocks, growth-oriented stocks, and momentum effects. Overall performance is average after adjusting for factor exposures. Further analysis indicates a significant cluster of new or updated analysts' ratings of stocks just before and just after a Cramer recommendation.

JEL classifications: G11; G12; G14

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1. Introduction

Mad Money is claimed to be the most-watched show on CNBC, with an audience in excess of 380,000 potential investors each weeknight. Mad Money host, Jim Cramer has been the source of numerous controversies with professional money managers and the financial press. He has also been controversial in the popular media, evidenced by his hotly contested interview with Jon Stewart on The Daily Show in 2008. The objective of this research is to examine the nature and impact of stock buy and sell recommendations proffered by Cramer on his program. We examine the nature of the market impact of recommendations revealed on the show and explore the performance characteristics of a Cramer portfolio. The results provide insights into the performance of a popular but controversial market pundit and should be of interest to followers and detractors seeking to develop an active, or alpha-generating, investment strategy.

Jim Cramer's nightly *Mad Money* television program debuted on CNBC in March of 2005. On each episode, Mr. Cramer presents a high-energy discussion, often aided by costumes and props, of the market and makes recommendations on various stocks. The show and its value to individual investors are controversial. Hinchey (2007) notes that the *Boston Globe* argues that, "If Mad Money is a business primer, it's a crash course designed for the ADHD set;" while also noting that the show is CNBC's top-rated show among 18- to 54-year olds. Blodget (2007) argues that Cramer gives terrible investment advice. Even Cramer himself, notes that "God knows why, but there seems to be a market for this kind of idiocy" (Cramer, 2007).

The controversy over Cramer includes arguments about Cramer's investment performance and the value of the advice he dispenses on *Mad Money*. Hinchey (2007) argues that if every stock recommended by Cramer was purchased at the last price on the show date and then sold 5 days later, only a 0.72% return would occur for the year. He claims the return is

4.90% for Cramer's strongest buy recommendations. Blodget (2007) cites one observer who argues that Cramer's picks returned 0.2% in 2006 versus a 22.5% return on a portfolio of passive index funds. Cramer himself argues that his most recent internal performance review found that the stocks he picked for the show beat the S&P 500 63 percent of the time (Cramer, 2007). He also notes that his contract with CNBC prevents him from owning any stock other than TheStreet.com and he indicates whether a stock he recommends is held by his charitable trust, operated through TheStreet.com. Bolster and Trahan (2009) examine Cramer's performance as it is relevant to individual investors and conclude that he is essentially harmless.

To better understand the impact and nature of Jim Cramer's recommendations made on *Mad Money*, we examine the market impact of a larger sample of his buy and sell recommendations, spanning the period from July 28, 2005 through December 31, 2008. We also construct a portfolio from Cramer's buy and sell recommendations over the July 28, 2005 through December 31, 2008 period and examine the buy and hold returns on this portfolio versus returns to a market index. Our results provide information of relevance to institutional investors seeking to develop an alpha-generating investment strategy by following Cramer's recommendations. Finally, we examine the generation of new equity ratings of other analysts during the weeks before and after the broadcast of a Cramer recommendation. In doing so, we attempt to determine whether Cramer leads or follows analyst opinion.

2. Data

We develop our sample of Cramer's recommendations using the independent YourMoneyWatch.com site, which focuses on unconditional recommendations.[1]

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[1] Engelberg, Sasseville, and Williams (2007) and Bolster and Trahan (2009) describe the YourMoneyWatch.com site and other sources of Cramer data in more detail. The YourMoneyWatch.com site went offline in 2009.

YourMoneyWatch.com is a free site that is not affiliated with Jim Cramer, *Mad Money*, or CNBC. It posts a history of all Cramer recommendations dating back to July 28, 2005. The site only lists unconditional new buy recommendations made during key show segments other than the "Lightning Round" or "Sudden Death" where Cramer responds to questions; unless Cramer takes extra time to elaborate on the stock or sets a price target significantly above the current price. Cramer (2007) argues that the lightning round, in which he responds to viewers' questions about random stocks in rapid succession, is one of the most "lightweight" parts of the show and that on any given night there "might not be anything worth hearing about in the whole lightning round."

We also examine a sample of sell recommendations. Cramer does not issue primary sell recommendations, but he does issue sell recommendations for stocks that he previously mentioned as buys, thus we do not interpret sell recommendations as recommendations to sell short. We review the tracking history for each of our buy recommendations and record any subsequent clear sell recommendations.

We review the recommendations on YourMoneyWatch.com from July 28, 2005 through December 31, 2008 and develop a sample of 1,592 clear buy recommendations. We also develop a sample of 700 clear sell recommendations. For the event study, we drop firms for which the required returns are not available on CRSP and are left with 1,538 buy recommendations and 693 sell recommendations with sufficient data to conduct an event study.

For our portfolio performance analysis, we also start with the same sample of 1,592 clear buy and 700 clear sell recommendations. We eliminate observations when Cramer reiterates a positive recommendation for a security he has already recommended as a buy. This results in

1,542 buy recommendations for our performance analysis.   We retain all 700 sell recommendations for this analysis.[2]

To gain insight into the source and influence of Cramer's recommendations, we examine the recommendation dates of analysts in the IBES database (Institutional Brokers' Estimates System) relative to Cramer recommendation dates, for all stocks in our sample based on Cramer recommendations.   There are 1,196 unique firms for which Cramer issued a buy recommendation and 523 unique stocks for which he made a sell recommendation. Next, we obtain details on the recommendation date, analyst code, and recommendations made, for each of these stocks, from the details file of the IBES analyst recommendations file. We match each of Cramer's buy and sell recommendations with corresponding recommendations by IBES analysts.[3] We first obtain all recommendations made by any analyst on IBES for all of these stocks from January 1, 2004 to March 31, 2008.[4] This results in a total of 42,273 IBES analyst-stock recommendations for the buy sample and 21,693 IBES analyst-stock recommendations for the sell sample. Thus, each Cramer buy is matched with about 35 recommendations from IBES analysts (42,273 / 1,196) and each sell recommendation is matched with about 42 (21,693 / 523) analysts' recommendations.

Descriptive statistics for the overall sample of firms are provided in Table 1. Panel A shows the distribution of firms by industry. The results show that Cramer draws from a wide array of industries. Panel B provides summary statistics for assets, sales, total market capitalization, and market-to-book ratios. The firms range in size (assets) from over two trillion dollars to just over

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[2] There are also 37 instances where a recommended security drops out of the CRSP database prior to the end of 2008. When this occurs, we sell the security.
[3] Appendix A describes the matching procedure in detail.
[4] For example, if Cramer recommended a Buy for Apple, we include *all* analysts recommendations made by IBES analysts for Apple. These recommendations typically fall into one of the following five categories as classified by IBES; *Strong Buy*, *Buy, Hold, Sell*, and *Strong Sell*.

6 million dollars, with median assets, sales, and market capitalization of $2.9 billion, $2.2 billion, and $6.8 billion respectively. Market-to-book ratios range from 0.52 to 205.9, with a median of 2.11.**Insert Table 1 about here.**

3. Methodology

3.1. Impact of Buy and Sell Recommendations

We use a two-step procedure to compute the average daily abnormal returns with stock price data from CRSP, following Brown and Warner (1985). First, we estimate the parameters of a single-factor market model for each firm. We use the returns from day -301 to day -46 to estimate each firm's alpha and beta coefficients. Second, we compute the excess return by subtracting a firm's expected daily return from its actual return. We calculate the cumulative abnormal returns by summing the abnormal returns over the periods from days 1 to 1, 0 to 0, -30 to 0, 2 to 5, 2 to 30, 1 to 5, and 1 to 30; where day 0 represents announcement of the buy or sell recommendation on Cramer's CNBC show. During the period of our study, *Mad Money* was not aired until after the market closes each day. Thus, we take day 1 to be the day that the information becomes known to the market. These abnormal returns are estimated for both buy and sell recommendations.

3.2 Portfolio Performance

For the purposes of his CNBC show, Jim Cramer does not represent himself as a portfolio manager but he clearly is a stock picker and he does advertise based on performance of his portfolio. His effectiveness in this regard can best be examined by assembling his record of picks into a portfolio. Since we are using CRSP data, daily returns are calculated from close to close. We begin by assembling a dollar-weighted portfolio of recommended stocks on July 28,

2005 purchased at the market close on the trading day following the broadcast. If Cramer's recommendations move the market, this should be reflected in prices shortly after the open on the day following a broadcast. By making trades at the close of the day following the broadcast, we rely on values more likely to be accessible to the typical retail investor. Specifically, we invest $1 in each of the buy recommendations. As new buy recommendations are made on subsequent broadcasts, we continue to invest $1 in each new position. Securities remain in the portfolio until they are recommended for sale. When a security is sold, we remove the cumulative value of that position from the portfolio. This results in a series of 862 daily portfolio returns that reflect the performance of all open positions.

While the portfolio we construct is investable, its primary purpose is to evaluate the overall performance of Cramer's stock picks.

Once we have compiled a record of performance for the Cramer portfolio in absolute terms, we need to adjust for risk and style preferences. We are trying to identify the excess return, or alpha, he provides for investors. Specifically,

$$\alpha = \text{Actual return} - \text{Expected return} \tag{1}$$

We employ factor analysis to estimate expected return; factor analysis and style analysis. We first examine his risk-adjusted performance using the 1-factor CAPM and the Fama and French (1993) 3-factor and 4-factor models.

The CAPM assumes only one risk factor, the market risk premium, and is represented in the following form:

$$R_{it} = Rf_t + \beta_i(RM_t - Rf_t). \tag{2}$$

If we rearrange the terms slightly, we can generate a regression equation:

$$R_{it} - Rf_t = \alpha_i + \beta_i(RM_t - Rf_t) + e_{it}. \tag{3}$$

Once we estimate values for a_i and b_i, we can rearrange the terms again:

$$\alpha_i = R_{it} - [Rf_t + \beta_i(RM_t - Rf_t)], \tag{4}$$

and α_i becomes our estimate of Jensen's alpha, or abnormal performance.

Fama and French (1993) show that there are other factors effective at explaining return. Their 3-factor model is now considered the standard method for calculating risk-adjusted returns. This approach can be summarized as follows:

$$R_{it} - Rf_t = \alpha_i + b_i(RM_t - Rf_t) + s_i SMB_t + h_i HML_t + e_{it}. \tag{5}$$

In the equation, $R_{it} - Rf_t$ and $RM_t - Rf_t$ represent the day t excess return on the portfolio and the market respectively. SMB_t is the difference between returns for small cap and large cap, or "small minus big" securities during day t. Finally, the differential return between value stocks (high book-to-market) and growth stocks (low book-to-market) during day t is captured by HML_t. We estimate values for α_i, b_i, s_i, and h_i using historical data. Analogous to the Jensen's alpha provided by a 1-factor model, our 3-factor alpha is simply the intercept, or α_i term we have estimated.

Finally, we add a fourth factor to capture any momentum effects[5]. This factor, UMD_t, represents the difference between the better and worse performing stocks, or "up minus down" for day t. The 4-factor model is:

$$R_{it} - Rf_t = \alpha_i + b_i(RM_t - Rf_t) + s_i SMB_t + h_i HML_t + u_i UMD_t + e_{it}. \tag{6}$$

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[5] The momentum factor was introduced and validated by Carhart (1997).

Again, the intercept, α_i, is our 4-factor alpha. Daily return estimates for factors, $RM_t - Rf_t$, SMB, HML, and UMD are obtained from Kenneth French's data library (mba.tuck.dartmouth.edu/pages/faculty/ken.french).

3.3 Timing of Cramer recommendations versus those of other analysts

Clement and Tse (2005) argue that the association between security returns and analysts' forecast revisions supports the notion that investors glean information about future earnings from analyst forecasts. Analysts typically herd when they do not fully incorporate their private information/analyses into the forecast revisions and instead revise their forecasts towards the mean (analysts') forecast. Consequently, when analysts herd, and thereby cluster their forecasts around earnings' announcements, the information content in individual analysts' forecasts will tend to be reduced. Clement and Tse (2005) also document that more experienced analysts are generally less likely to herd, while less experienced analysts tend to seek safety in adhering to a consensus.

While, most studies on analyst herding behavior generally focus on herding around earnings forecasts (of EPS), our focus is around Cramer recommendations. An exception is Welch (2000) who finds that buy and sell recommendations positively influence the next two analysts' recommendations. Our objective in this part of the study is to understand if recommendations by other analysts tend to cluster around Cramer recommendation dates. Thus, while forecast-based herding studies examine the proximity of analyst forecasts *values* around the mean/consensus forecast, we investigate the *timing* of (other) analyst recommendations around a Cramer recommendation for a stock.

We compute the variable *Cramer Relative Date* which is the number of calendar days from an *IBES* recommendation to the Cramer recommendation date for the same stock. Consider for instance, a buy recommendation made by Cramer for *Apple* on August 17, 2005. Three analysts, X, Y, and Z also made a recommendation for Apple during our sample period mentioned above. The recommendation dates for each of the three analysts are, August 1, 2005, August 17, 2005, and August 31, 2005 respectively. The variable *Cramer Relative Date* is equal to -16, 0, and 14 for the three analysts respectively. While there are certainly a large number of analyst forecasts, we focus further attention on analyst recommendations made during a 61 day period beginning 30 days prior to a Cramer recommendation and ending 30 days after the broadcast date.

4. Results

4.1 Event Study Results

Our results show that Cramer's recommendations impact share prices of the companies that he mentions. Table 2, reports the event study results for Cramer's buy recommendations. The abnormal returns for the buy recommendations are a positive and statistically significant 1.88% for day 1 when his picks hit the market. They are a positive and significant 0.38% on the day of the show (day 0) and a positive and significant 3.90% for days -30 to 0, suggesting that Cramer is picking up on prior information and momentum. The abnormal returns are negative and significant at -0.33% and -2.10% for the days 2 to 5 and 2 to 30 post-announcement windows respectively. For days1 to 30 window, the results dissipate, becoming economically and statistically insignificant after 30 days.

Table 2 also shows the results for each year of the sample—2005, 2006, 2007, and 2008. The results are generally quite robust for each period, with a positive and significant average return for each individual year for day 1 and days 1 to 5. The average return for days 2 to 30 are negative and significant for each year with the exception of 2007 which provides a non-significant return. This results in a positive and significant return for the day 1 to 30 window in that year. Overall, the results suggest that Cramer's buy recommendations do impact share prices of the companies that he mentions, but, with the exception of 2007, the results quickly reverse, consistent with a price pressure effect.

Insert Table 2 about here.

Cramer's sell recommendations also impact share prices of the companies that he mentions. Table 3, reports the event study results for all sell recommendations. The abnormal returns for the sell recommendations are a negative and statistically significant -0.73% for day 1 when his picks hit the market. They are a positive and significant 0.01% on the day of the show (day 0) and a negative and significant -3.24% for days -30 to 0, suggesting that Cramer is picking up on prior information and momentum over the prior 30-day window, with some positive momentum on the day of the recommendation. The abnormal returns are negative and significant at -0.49% and -2.39% for the days 2 to 5 and 2 to 30 post-announcement windows respectively. For the days 1 to 5 and 1 to 30 windows, the results remain statistically significant at -1.22% and -3.11% respectively.

Table 3 also shows the results for each year of the sample—2005, 2006, 2007, and 2008. The results are generally robust for each period, although the day 2 to 30 abnormal returns, while still negative, are no longer statistically significant for 2007 and 2008. Overall, the results suggest that Cramer's sell recommendations do impact share prices of the companies that he

mentions. Unlike the buy recommendations, the results do not quickly reverse, but rather continue to exhibit negative and significant abnormal returns over the post-announcement windows. This persistence suggests that Cramer is picking up on some new information in his sell recommendations.

Insert Table 3 about here.

Overall, the event study results suggest that Cramer's buy and sell recommendations impact share prices of the companies that he mentions.[6] There is evidence that his recommendations follow positive (negative) momentum for buy (sell) recommendations. Figure 1 plots the daily abnormal returns and cumulative abnormal returns for +/- 30 days around the announcement date. Consistent with the results of prior studies of second-hand information and price pressure effects (for example, Barber and Loeffler, 1993 and Trahan and Bolster, 1995), the positive abnormal returns associated with buy recommendations reverse in the month subsequent to the recommendations. However, the results persist at a statistically significant level for sell recommendations. While Cramer's buy recommendations may dissipate due to a price pressure effect, or come at the end of upward momentum, his sell recommendations remain significant, indicating a real decline in value or continuing downward momentum. He may be better able to pick up on these effects for stocks which he has already recommended.

Insert Figure 1 about here.

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[6] It is possible that the event-study results are impacted by additional information or announcements that would affect the abnormal return from day -1 to +1. We search the *Wall Street Journal* on Factiva for all of the buy and sell recommendations in our sample for five days before and after the announcement and exclude companies that have material other announcements within this window. These events include, for example, earnings announcements, plant closings, acquisitions, lawsuits and settlements, etc. We exclude 141 of our 1,538 buy recommendations and 81 of our 693 sell recommendations due to contaminated events and find that the results are economically and statistically unchanged relative to our full sample.

4.2 Portfolio Performance

We now examine the returns to a Cramer portfolio and the portfolio's performance and style characteristics. The portfolio is always dollar weighted. Since Cramer makes many more buy than sell recommendations, the number of positions in the portfolio grows almost monotonically from the six recommendations made on July 28, 2005 to the 915 extant recommendations still open on December 31, 2008.

The cumulative return for this portfolio for the entire period is -22.90%, or an annualized return of -7.32%. The progression of returns for the portfolio and the S&P 500 index is shown in Figure 2.[7] The S&P 500 earned -26.81%, or -8.72% annualized over the same period.

Insert Figure 2 about here

However, this simple comparison does not account for common factors related to return. We employ models with 1, 3, and 4 factors, previously described, to estimate expected portfolio returns. Regression analysis of these 1, 3, and 4-factor models are provided in Table 4.

Insert Table 4 about here

Panel A of Table 4 shows the analysis for the entire period from July 28, 2005 to December 31, 2008. The alphas for the one and three-factor models are positive, while it is negative for the four-factor model, but none are significantly different from zero. This suggests that a portfolio constructed as described from Cramer's ongoing recommendations would not produce superior performance over the entire period of analysis after adjusting for market performance (RM-Rf), size (SMB), and book-to-market (HML) characteristics. The 1-factor CAPM model has an estimated coefficient for the $RM - Rf$ factor, the portfolio's beta, of 1.0646. Systematic risk is about 6% greater than the passive S&P 500 index. All factors are highly

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[7] Figure 2 also shows the performance of a portfolio formed by holding no Cramer recommended stocks for a period longer than 60 days. This portfolio should reduce the influence of "forgotten" recommendations on performance. We examine the style characteristics of this portfolio later in the paper.

significant in the 3-factor model. Not only is there beta exposure, but the positive coefficient on SMB suggests the portfolio is tilted toward smaller securities, while the positive coefficient on HML suggests the portfolio is tilted toward, value-oriented securities. When a fourth factor for momentum, UMD, is added, it is also significant and positive. This indicates that Cramer tends to recommend securities that have been trending upward (or downward for sells) in the recent past, and is consistent with the event study results reported in Tables 2 and 3. R-squared measures are high for all models, topping out at 0.98 for the 4-factor model. This suggests that nearly all portfolio returns are explained by common factors.

We next divide the entire period into four subsamples representing the calendar years, 2005 through 2008 to examine the stability of the relationships shown in Panel A. These results are provided in Panels B, C, and D respectively. Estimated alphas are negative for 2005, 2006, and 2008 but not significantly different from zero with the exception of the 3-factor alpha for 2006. This alpha, -0.0267, is significant at the 5% level. Alphas for 2007 are positive for the 1- and 3-factor models, 0.0200 and 0.0209 respectively, and are significant at the 10% and 5% levels respectively. These alphas provide some evidence that Cramer had a tough year in 2006 and a good one in 2007. It is also clear from the year-by-year analysis that Cramer has altered his exposure to all factors over time. The estimated RM − Rf factors, or betas, for the 1-factor model move from 1.27 in 2005 to 1.40 in 2006 before declining to 1.10 in 2007 and 1.03 in 2008. Estimated coefficients for the 3-factor model indicate that overall market risk, or beta, is stable but again significantly greater than 1 for each of the four years. The coefficient for the size factor, SMB, is positive and significant for all years but peaks in 2006 before declining in 2007 and 2008. The most interesting factor is the value/growth factor, HML. It is positive and significant in 2005 and 2006 indicating Cramer's relative preference for value stocks. However,

this factor becomes negative and significant in 2007 and 2008, suggesting that Cramer has transitioned his portfolio to one that emphasizes growth over value. In sum, the year-by-year analysis for the 3-factor model indicates that Cramer retains above average exposure to the market and retains a small cap preference. His value-stock preference has become a growth-stock preference in the most recent years.

Our continuing analysis of the 4-factor model shows average to above average exposure to market risk and disproportionate exposure to small firms (SMB) and firms showing positive momentum (UMD). The value/growth factor (HML) is not significant in 2005 or 2006. It is negative and significant in 2007 and 2008, again indicating a preference for growth stocks. It is difficult to project too much from this limited data, but it appears that Cramer has kept his sights on small firms and maintained exposure to momentum while moving to a growth orientation in 2007 and 2008.

To summarize our analysis for our synthetic Mad Money portfolio, common factors such as the market risk premium, market premium for relative performance of small and large firms, market premium for relative performance of high book-to-market and low book-to-market firms, and market premium for relative performance of stock values trending upward and those trending downward, explain as much as 97% of the variance in returns. When a momentum factor is added to the model, it becomes a significant explanatory factor while diminishing the relevance of the high/low book-to-market factor. None of the 1-factor or 4-factor models examined produces an alpha that is significantly different from zero. However, the 3-factor model produces an alpha that is significant and negative in 2006 and significant and positive in 2007. Even a simple CAPM model fails to produce a significant alpha for the overall time

period but estimates beta exposure at 120% of the market average. Beta exposure peaks in 2006 and declines in 2007.

Taken together, the factor models allow for some useful insights. Our analysis clearly indicates that Cramer has shifted his exposure from value to growth over time. This is the reason for his superior performance in 2007; 15.05% when the market was up only 3.53%. The significant alpha for 2007 also indicates that, even after adjusting for his average exposures to beta, size, and value, Mr. Cramer's cumulative recommendations still added value during that year.

4.3 The timing of Cramer's recommendations and those of other analysts

We examine the timing of new analyst recommendations on stocks Cramer recommends to get a sense of whether he is leading or following analyst opinion. Panel A in Table 6 presents summary statistics for *Cramer Relative Date* for the "Buy" and "Sell" samples. The mean (median) value for *Cramer Relative Date* in the "Buy" sample is -58 (-50) days, while the mean (median) for the "Sell" sample is -258 (-253) days. These figures need to be interpreted with caution because they include recommendations made well before or after a Cramer recommendation.[8] To alleviate any potential bias resulting from such "stale" recommendations, we focus on the subset of recommendations made within a window of 30 calendar days (61-day window) surrounding a Cramer recommendation date.

Insert Table 6 about here.

Summary statistics for *Cramer Relative Date* for several windows that are less than or equal to the 61-day windows are presented in Panel B of Table 6. There are 1,619 (959) *IBES*

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[8] The maximum distance between a Cramer recommendation date and an IBES recommendation made prior (subsequent) to the date is about 5 (3) years.

recommendations for the Cramer "Buy" ("Sell") portfolio, for the 61-day window. The number of *IBES* recommendations over a window (by construction) should systematically decrease as we reduce the window size. We find that the average number of *IBES* recommendations per day increases as we move closer to a Cramer recommendation date (day 0). For instance, in the "Buy" portfolio of stocks, the average number of IBES forecasts increases from 26.54 per day to 50.00 per day for the event date. We observe a similar pattern for the "Sell" portfolio. Figure 3 shows a plot of the average number of *IBES* recommendations made on each *Cramer Relative Day* in the -5 to +5 window, for the "Buy" and "Sell" portfolios respectively

At the very least, these findings indicate that there is a spike in the average number of recommendations on days closer to a Cramer forecast date. The number of other analyst's recommendations increase substantially in the -2 to +2 window around the Cramer recommendations, spiking on day zero (the day of Cramer's recommendations). Recommendations by other analysts increase both before and after Cramer's recommendations, suggesting that Cramer is not leading other analysts and they are not leading him. The results are consistent with all of these analysts updating their recommendations within a narrow window. They are also consistent with analyst herding.

Insert Figure 3 about here.

5. Summary and Conclusion

We examine the nature and impact of stock buy and sell recommendations provided to investors by Jim Cramer on his popular *Mad Money* program. Our event study results suggest that Cramer does impact share prices of the companies that he mentions with his buy and sell recommendations. There is evidence that his recommendations follow positive (negative)

momentum for buy (sell) recommendations. Consistent with the results of prior studies of second-hand information and price pressure effects, the positive abnormal returns associated with buy recommendations become insignificant in the month subsequent to the recommendations. However, the results persist at a statistically significant level for sell recommendations.

The cumulative return for a dollar-weighted portfolio formed from Cramer's recommendations over the July 28, 2005 through December 31, 2008 period is -22.90%. The S&P 500 earned -26.81% over the same period. Our factor analysis of portfolio performance for the entire period of analysis suggests that factor-adjusted returns, or alphas, are generally not significantly different from zero. Multivariate analysis suggests that Cramer's portfolio returns are driven by beta exposure, smaller stocks, growth-oriented stocks, and momentum effects. However, when we look at performance year by year, it is clear that Cramer has reduced his reliance on high beta stocks and has shifted away from value and toward growth.

The full period results provide little compelling information that Cramer's recommendations are extraordinarily good or unusually bad. However, the year by year results are more intriguing. In particular, Cramer's robust performance in 2007 results from a clear shift from value to growth, particularly in large cap stocks. A 3-factor Fama-French model even provides a significantly positive alpha for 2007. Yet, this model produced a significantly negative alpha for 2006. Thus, we find inconsistent evidence of Cramer's ability to add value through security selection. But he has an advantage over the typical mutual fund manager: he is not trapped in a style box. This worked to his advantage in 2007In 2008, a tough year for markets in general, Cramer turned in average performance.

We also examine the relationship of Cramer's recommendations with those of other analysts following the same stocks. Our analysis of the incidence of new analyst recommendations indicates that there is a significant spike in new recommendations in the few days before and after the broadcast of a Cramer recommendation. This would indicate that Cramer is attending to changes in analysts' recommendations but also that analysts are listening to Cramer and that all analysts are adjusting their forecasts in a narrow window.

Jim Cramer is certainly entertaining and mesmerizing to his viewers. He has been a controversial figure in the media and with institutional investors and professional money managers. Our results provide some perspective on the overall value of Cramer's recommendations and should be of interest to professional investors seeking to develop an active, or alpha-generating, investment strategy, and to those interested in an unbiased and scientific analysis of his performance.

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    396.

Appendix: Procedure used to Match Cramer Recommendations with IBES Recommendations

We use the PERMNO for all firms followed by Cramer to obtain their corresponding 8-digit CUSIP (variable name NCUSIP) numbers from the *Center for Research in Securities Prices* (CRSP). We then merge these resulting CUSIP numbers with the corresponding CUSIP numbers on IBES. This results in a match for about 90% of the firms in our base sample. In instances (less than 5%) where there are multiple CUSIP matches, we manually check for the name of the firm and retain the correct observation. For the missing observations, we then match the official ticker symbol in *CRSP* with the variable OFTIC in *IBES*. To ensure that the firms based on the ticker symbols are the same, we manually check a random sample. After this step we are left with approximately 5% of the sample with missing IBES recommendations. For this sample of firms, we fill in as many observations as possible, using a final match based on company names.

Table 1: Descriptive statistics for the *Mad Money* sample

Panel A reports industry distribution of the 1,054 unique firms with buy or sell recommendations on Mad Money between July 28, 2005 and December 31, 2008, and with data available on Compustat. Panel B reports summary statistics on assets, sales, total market capitalization, and market-to-book ratios for these firms.

A: Industry distribution

SIC	Industry description	Number of Firms	%
0100	Agriculture, Forestry, and Fishing	1	0.1
1000	Mining and Construction	102	9.7
2000	Manufacturing—Food and Chemicals	197	18.7
3000	Manufacturing—Materials and Machinery	296	28.1
4000	Transportation, Communications, and Utilities	112	10.6
5000	Wholesale and Retail Trade	111	10.5
6000	Finance, Insurance, and Real Estate	89	8.4
7000-8000	Services	144	13.7
9000	Public Administration	2	0.2
	Total	1,054	100.0

B: Summary statistics ($ million)

	Assets	Sales	Total Market Capitalization	Market-to-Book Ratio
Mean	$30,082.29	$11,467.69	$44,083.41	2.96
Median	$2,933.40	$2,206.72	$6,832.67	2.11
Minimum	$6.32	$0.02	$47.42	0.82
Maximum	$2,175,052.00	$425,071.00	$2,229,098.70	205.90

Table 2

Announcement-period returns for 1,538 Mad Money buy recommendations made between July 28, 2005 and December 31, 2008, and for sub-periods 2005, 2006, 2007, and 2008. Day 0 is the day of the broadcast of the show in which the recommendation is made; airing after the market close. Z-statistics are shown in parentheses.

	2005—2008	2005	2006	2007	2008
Number of Observations	1,538	428	586	325	199
CAR 1,1	1.88% $(32.20)^{***}$	1.60% $(15.54)^{***}$	2.36% $(23.62)^{***}$	1.61% $(12.61)^{***}$	1.53% $(10.04)^{***}$
CAR 0,0	0.38% $(7.59)^{***}$	0.42% $(4.10)^{***}$	0.26% $(3.80)^{***}$	0.27% $(1.82)^{**}$	0.83% $(6.25)^{***}$
CAR -30,0	3.90% $(14.77)^{***}$	3.53% $(6.00)^{***}$	3.24% $(7.59)^{***}$	4.13% $(8.87)^{***}$	6.25% $(7.92)^{***}$
CAR 2,5	-0.33% $(-2.97)^{***}$	-0.59% $(-3.16)^{***}$	-0.50% $(-1.85)^{**}$	0.20% (0.77)	-0.16% $(-1.43)^{*}$
CAR 2,30	-2.10% $(-5.56)^{***}$	-2.27% $(-4.35)^{***}$	-2.89% $(-4.58)^{***}$	-0.19% (-0.92)	-1.48% $(-1.68)^{*}$
CAR 1,5	1.55% $(11.74)^{***}$	1.01% $(4.12)^{***}$	1.86% $(8.91)^{**}$	1.81% $(6.33)^{***}$	1.37% $(3.21)^{***}$
CAR 1,30	-0.21% (-0.44)	-0.67% $(-1.44)^{*}$	-0.53% (-0.19)	1.42% $(3.28)^{***}$	0.05% (0.25)

*significant at the 10% level, **significant at the 5% level, ***significant at the 1% level.

Table 3

Announcement-period returns for 693 Mad Money sell recommendations made between July 28, 2005 and December 31, 2008, and for sub-periods 2005, 2006, 2007, and 2008. Day 0 is the day of the broadcast of the show in which the recommendation is made; airing after the market close. Z-statistics are shown in parentheses.

	2005—2008	2005	2006	2007	2008
Number of Observations	693	52	316	188	137
CAR 1,1	-0.73% $(-7.28)^{***}$	-1.25% $(-3.51)^{***}$	-0.65% $(-3.91)^{***}$	-0.75% $(-3.52)^{***}$	-0.66% $(-3.95)^{***}$
CAR 0,0	0.01% $(2.30)^{**}$	-0.34% (0.55)	0.06% $(1.77)^{**}$	0.59% $(5.12)^{***}$	-0.79% $(-3.26)^{***}$
CAR -30,0	-3.24% $(-5.89)^{***}$	-0.57% (-0.43)	-3.92% $(-4.85)^{***}$	0.16% (0.44)	-7.38% $(-6.17)^{***}$
CAR 2,5	-0.49% $(-1.61)^{*}$	-0.61% (-0.93)	-0.44% $(-1.28)^{*}$	-0.89% $(-1.36)^{*}$	-0.08% (-0.33)
CAR 2,30	-2.39% $(-3.47)^{***}$	-4.31% $(-1.87)^{**}$	-2.61% $(-2.76)^{***}$	-1.87% (-1.10)	-1.90% (-1.20)
CAR 1,5	-1.22% $(-4.70)^{***}$	-1.86% $(-2.40)^{***}$	-1.09% $(-2.90)^{***}$	-1.64% $(-2.80)^{***}$	-0.74% $(-1.48)^{*}$
CAR 1,30	-3.11% $(-4.76)^{***}$	-5.56% $(-2.47)^{***}$	-3.25% $(-3.43)^{***}$	-2.62% $(-1.72)^{**}$	-2.55% $(-1.94)^{**}$

*significant at the 10% level, **significant at the 5% level, ***significant at the 1% level.

Figure 1

Daily abnormal returns (AR) and cumulative abnormal returns (CAR) for 1,538 Mad Money buy recommendations and 693 sell recommendations made between July 28, 2005 and December 31, 2008. Day 0 is the day of the broadcast of the show in which the recommendation is made; airing after the market close.
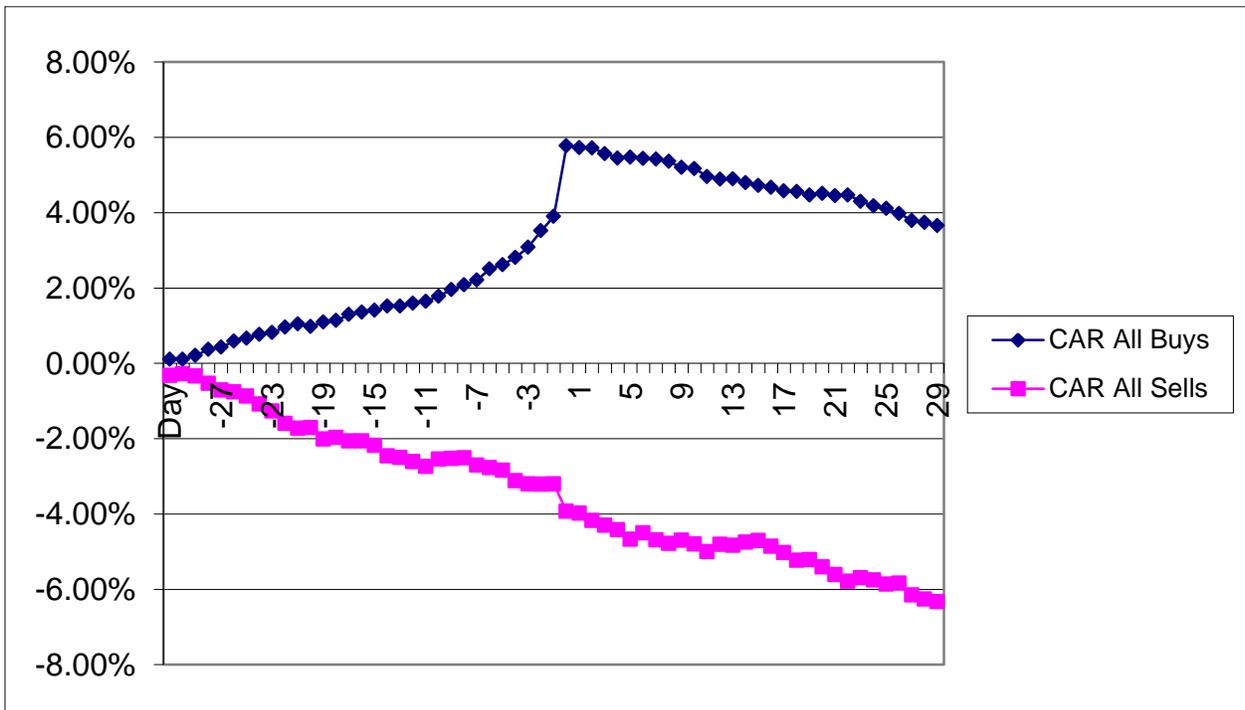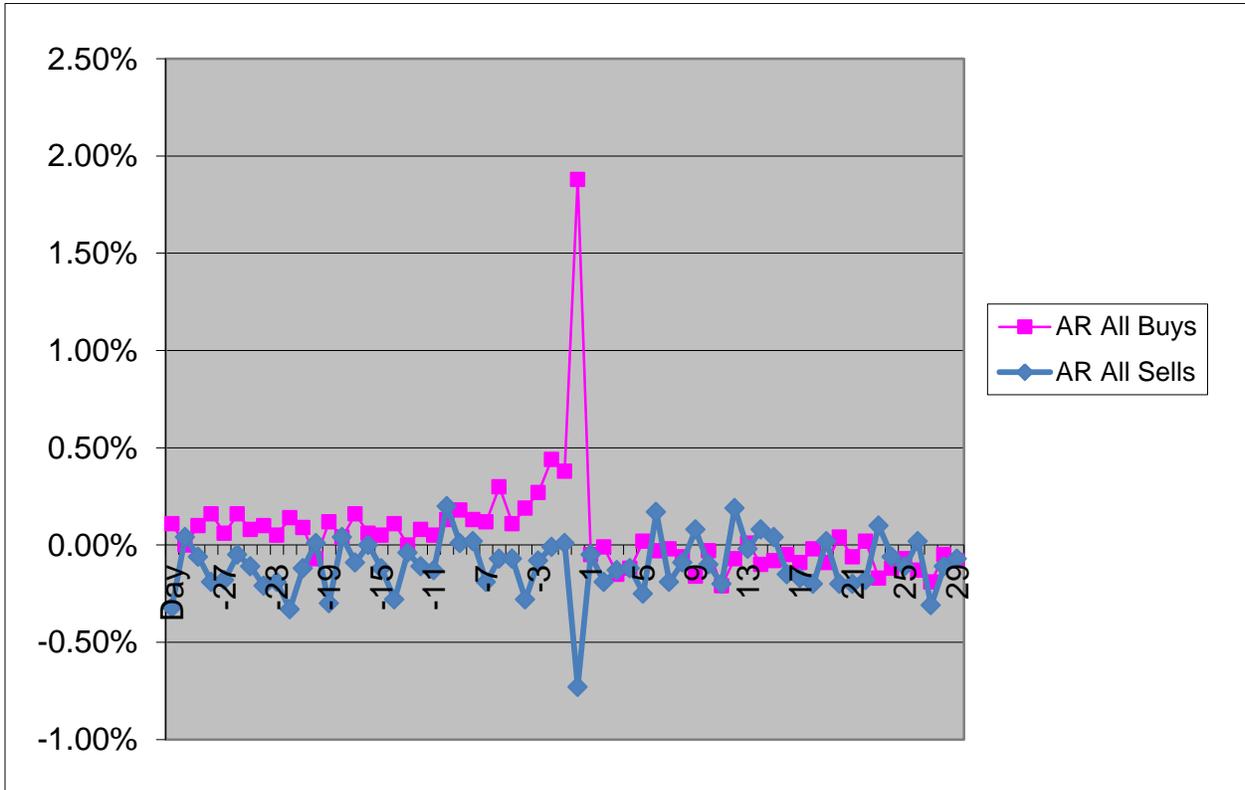
Figure 2

Cumulative performance of two portfolios. The Cramer Portfolio is a portfolio formed by investing $1 in each unique buy recommendation and holding the position until a sell recommendation is issued. The Cramer 60 day Portfolio is constructed similarly but with no positions held longer than 60 trading days. The performance of the S&P 500 is shown for comparison.
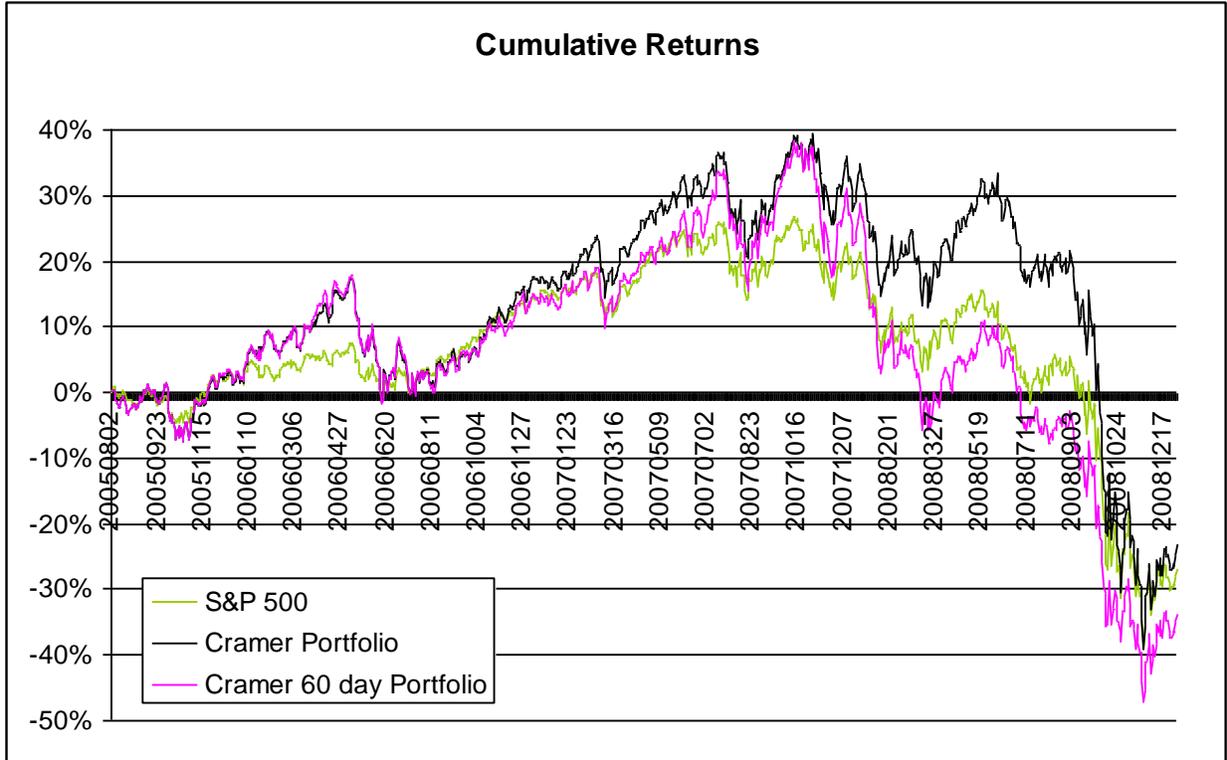

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Table 4

Results of regression analysis for 1, 3, and 4 factor Fama-French models for the full sample of dollar weighted returns. Returns are generated assuming $1 is invested in each new buy recommendation at the closing price on the day following the broadcast. Securities remain in the portfolio until a subsequent sell recommendation is made. (T-statistics for two tailed tests are shown in parenthesis. All factors are tested for significant differences from 0 with the exception of the RM – Rf factor which is tested for significant differences from 1.)

Panel A: Results for the entire sample, July 28, 2005 to December 31, 2008

Factor	1-factor (CAPM)	3-factor	4-factor
α	0.0010	0.0041	-0.0032
	(0.08)	(0.46)	(-0.41)
RM – Rf	1.0646	1.0949	1.1258
	(8.48)***	(15.12)***	(21.55)***
SMB		0.3151	0.3273
		(21.71)***	(25.64)***
HML		-0.1511	-0.0103
		(-9.51)***	(-0.62)
UMD			0.1543
			(16.01)***
R-squared	0.957	0.975	0.981

Panel B: Results for 2005

Factor	1-factor (CAPM)	3-factor	4-factor
α	-0.0132	-0.0077	-0.0322
	(-0.38)	(-0.26)	(-1.40)
RM – Rf	1.2744	1.1271	0.9654
	(5.09)***	(2.24)**	(-0.73)
SMB		0.4128	0.2546
		(4.44)***	(3.46)***
HML		0.7156	0.1111
		(5.74)***	(0.94)
UMD			0.5539
			(8.61)***
R-squared	0.840	0.882	0.931

Panel C: Results for 2006

Factor	1-factor (CAPM)	3-factor	4-factor
α	-0.0190	-0.0267	-0.0008
	(-1.11)	(-2.11)**	(-0.08)
RM – Rf	1.3949	1.1932	1.0568
	(15.49)***	(8.04)***	(2.57)**
SMB		0.5250	0.4248
		(15.08)***	(14.73)***
HML		0.3246	0.0468
		(6.11)***	(0.97)
UMD			0.3346
			(12.11)***
R-squared	0.923	0.960	0.975

Panel D: Results for 2007

Factor	1-factor (CAPM)	3-factor	4-factor
α	0.0200	0.0209	0.0105
	(1.62)*	(2.07)**	(1.29)
RM – Rf	1.1033	1.0848	1.0729
	(8.40)***	(8.44)***	(8.96)***
SMB		0.2643	0.3410
		(10.51)***	(16.08)***
HML		-0.1665	-0.0877
		(-4.40)***	(-2.82)***
UMD			0.1810
			(11.72)***
R-squared	0.970	0.980	0.988

Panel E: Results for 2008

Factor	1-factor (CAPM)	3-factor	4-factor
α	-0.0138	-0.0073	-0.0181
	(-0.52)	(-0.38)	(-0.58)
RM – Rf	1.0300	1.0864	1.1099
	(21.26)***	(9.90)***	(11.19)***
SMB		0.2721	0.2932
		(12.80)***	(13.99)***
HML		-0.1773	-0.1040
		(-8.61)***	(-4.09)***
UMD			0.0775
			(4.61)***
R-squared	0.975	0.987	0.988

*significant at the 10% level.
**significant at the 5% level.
***significant at the 1% level.

Table 6: Summary Statistics for Frequency of IBES Recommendations on Cramer Relative Days

The table presents summary statistics for the number of all IBES recommendations for stocks in Cramer's portfolio. The "Buy" ("Sell") portfolio consists of all stocks for which Cramer recommended at least one "Buy" ("Sell") during the sample period. Cramer Relative Days are the number of calendar days from an IBES recommendation to a Cramer recommendation date for the same stock. Panel A contains summary statistics for the overall sample, i.e. all recommendations issued for Cramer Buy and Sell portfolios in IBES. Panel B contains recommendations summary statistics only for those recommendations made in the 61-day window surrounding a Cramer recommendation date.

Panel A: Overall Sample

	N	Mean	Median	Lower Quartile	Upper Quartile	Minimum	Maximum
Cramer Relative Days for "Buy" Sample	42,273	-58.18	-50.00	-459.00	361.00	-1,799.00	966.00
Cramer Relative Days for "Sell" Sample	21,693	-258.55	-253.00	-646.00	153.00	-1,806.00	938.00

Panel B: Windows around Cramer Recommendation Days

Cramer Relative Day Windows	Buy Portfolio N	Buy Portfolio Average # per day	Sell Portfolio N	Sell Portfolio Average # per day
(-30 to +30)	1,619	26.54	959	15.72
(-10 to +10)	570	27.14	383	18.24
(-5 to +5)	298	27.09	223	20.27
(-2 to +2)	159	31.80	138	27.60
(-1 to +1)	117	39.00	116	38.67
Cramer Recommendation Day (Day 0)	50	50.00	44	44.00

Figure 3: Plot of average number of *IBES* Recommendations per *Cramer Relative Day*