Information Acquisition and Expected Returns: Evidence from EDGAR Search Traffic

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Summary

Objective: this paper studies whether and how the abnormal number of IPs (AIPs) searching in the SEC's EDGAR system for firms' financial statements predicts stock future returns.

Sample: monthly observations from 2003 to 2014

Findings:

- AIPs positively predict future stock returns
- AIPs positively predict firm fundamentals
- The return prediction is more pronounced for firms with lengthy filings, for IPs searching current and historical filings
- Implications: investors' costly information acquisition indicates their positive information on firms' performance

This paper has

7 sections

74 pages

12 tables in the text

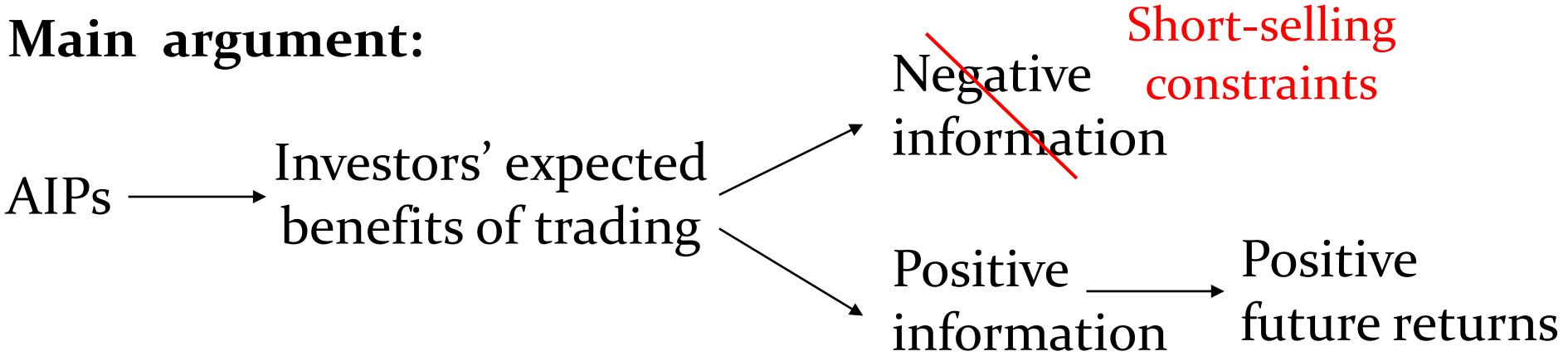
12 tables in the appendix

been presented in many conferences and seminars

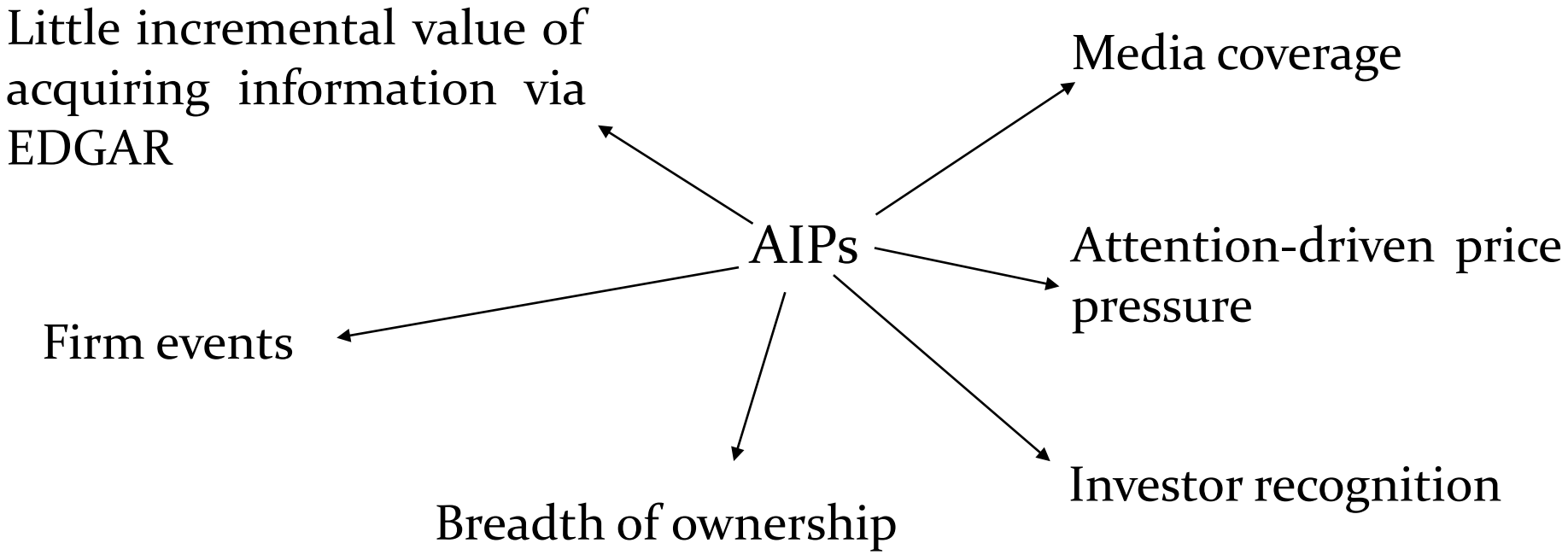
All my comments try not to provide suggestions to add new tests, and would focus on how to shorten and sharpen the paper

Explanations

Main argument:



~~Alternative arguments:~~



Cross-sectional determinants of number of IPs

In Table 2, the number of IP addresses searching for EDGAR filings is regressed on a number of firm characteristics, which proxy for the cost and benefits of acquiring information.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
LnME	0.2713***	0.2356***	0.2475***	0.2943***	0.2992***	0.3015***	0.3026***	0.2608***	0.2628***
	(69.44)	(71.54)	(73.46)	(75.60)	(76.94)	(77.29)	(77.58)	(75.05)	(74.98)
Coverage		0.1310***	0.0422***	0.0382***	0.0321***	0.0332***	0.0360***	0.0337***	0.0399***
		(32.65)	(14.39)	(14.36)	(12.17)	(12.56)	(14.17)	(13.99)	(16.86)
Turnover12			1.0083***	0.7934***	0.7862***	0.7912***	0.7877***	0.8175***	0.8113***
			(30.21)	(29.08)	(30.04)	(29.75)	(30.52)	(30.68)	(30.92)
IVOL				9.1266***	9.0159***	9.0510***	9.0215***	8.5748***	8.0871***
				(34.65)	(33.38)	(33.16)	(32.36)	(31.55)	(31.65)
MOM					-0.0518***	-0.0529***	-0.0507***	-0.0508***	-0.0513***
					(-6.00)	(-6.19)	(-5.99)	(-6.38)	(-6.43)
LnBM						0.0171***	0.0158***	0.0087***	0.0108***
						(8.19)	(7.25)	(4.06)	(5.16)
IO							-0.0299**	0.0657***	0.0575***
							(-1.99)	(4.80)	(4.37)
SP500								0.3634***	0.3591***
								(58.81)	(58.60)
EAM									0.1587***
									(9.62)
Constant	2.5352***	2.6342***	2.5357***	2.0730***	2.0483***	2.0408***	2.0449***	2.2164***	2.1892***
	(39.20)	(40.68)	(40.19)	(33.45)	(33.37)	(33.32)	(32.62)	(34.26)	(34.03)
Ave.R-sq	0.404	0.483	0.520	0.554	0.558	0.559	0.563	0.574	0.582
N.of Obs.	610651	488129	488129	488123	488123	488123	484835	484835	484835

- The results are somewhat expected, and also distract readers' attention on latter tests. Moreover, the paper focuses on AIPs instead of IPs.
- Either Section 3.3 or Table 2 could be removed

Cross-sectional heterogeneity

In Section 4.3, a number of heterogeneity tests have been tests:

- Firm size, volatility, residual institutional ownership, residual analyst coverage, lendable supply and lending fees
- Complexity of financial filings
- Heterogeneity at IP levels

Comments :

- These cross-sectional heterogeneity tests can be moved to the channel tests or tests to rule out the alternative explanations
- The test on firm size is related to Section 5.1 (Predicting the changes in firm fundamentals)
- Limits of arbitrages can be considered as a new channel
- Complexity of financial filings and heterogeneity at IP levels can be used to rule out the possibility that there is little value of acquiring information via EDGAR

Predicting earnings announcement returns

In Section 4.5, AIP positive predicts stock returns around earnings announcements.

	Market-adjusted CAR(-1,+1)			DGTW-adjusted CAR(-1,+1)		
	(1)	(2)	(3)	(4)	(5)	(6)
AIP_total	0.0020			0.0019		
	(1.39)			(1.45)		
AIP_fundl		0.0025*			0.0024*	
		(1.90)			(1.93)	
AIP_10K			0.0036***			0.0033***
			(2.74)			(2.93)

Comments :

- This test is related to the tests on Section 5.1 (predicting the changes in firm fundamentals)
- Online Table A7 can be merged with Table 9
- Section 4.5 can be merged with Section 5.1

Information acquisition and investor trading

In Section 6.2.1, net purchase by mutual funds and retail order imbalance are regressed on lagged AP.

	Net Purchases by Mutual Funds			Retail Order Imbalance		
	(1)	(2)	(3)	(4)	(5)	(6)
AIP_total	0.0030			0.0090***		
	(0.52)			(7.16)		
AIP_funtl		0.0046			0.0079***	
		(0.77)			(6.89)	
AIP_10K			0.0065			0.0076***
			(1.00)			(7.81)

Comments:

- The test on AIPs and investor trading is very important to validate the key implication of the main argument of the paper
- I feel not so comfortable with the test using the lead-lag test
- The contemporaneous test may be better than the lead-lag test in a quarterly or monthly testing window.
- The intuition is that these investors increase their holdings when checking AIPs

Other comments

- Section 6.2.2 IPs or searches can be moved to Section 4.2 robustness checks and alternative implementations

- Sections 5 and 6 can be merged together

- Section 5.3 (anomaly-based mispricing and abnormal number of IPs) is more like a test to rule out alternative explanations rather than a channel test

- If you want to do more tests, you still can check
    - Location of IP addresses: local vs non-local
    - Correlation with insider trading
    - Relation between AIPs and contemporaneous stock returns

Conclusion

Research question: novel evidence and intuitive explanations

Empirical tests: solid and comprehensive

Main comments: the writing can be further polished and the paper can be further condensed

Good luck!