
Discussion for “What’s in Investors’ Information Sets?”

Discussant: Xiaoyan Zhang

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Research Question

- Does stock following allow, or to what degree allow, efficient incorporation of information into prices?
 - If investors correctly incorporate new information, then a broader following may result in greater informational efficiency;
 - If investors over extrapolate or are characterized by diagnostic expectations, then a broader stock following may result in a lower degree of informational efficiency.

 - How investors process information is an important question.
 - The answer to the above research question is empirical.
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Data

- Seeking alpha: a crowdsourced content service provider
 - 20 million users overall, 6 millions with watchlists information;
 - Subscribers of watchlists receive emails containing contributor-produced content, breaking news, and transcripts of conference calls;
 - Initiations and changes to the watchlists;
 - Self-designated identity information of subscribers, such as part-time investor, full-term investor, student, hedge fund employee, mutual fund employee, and academic.
 - Unique, novel and rich dataset.
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Findings

- General patterns
 - Generalized learning vs. specialized learning: support the latter
 - Lengths of list, heterogeneity of investors
 - Connect the list to RavenPack to understand additions/removals
 - Watchlist changes behave differently than instantaneous attention
 - Asset pricing implications using changes in attention
 - Positive daily changes in watchlists predict positive returns
 - A positive relation between changes in watchlist and stock returns for a few weeks
 - A negative relation between the two afterwards.
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Findings

- Asset pricing implications using level of attention
 - If stock following is positively related with probability of over-valuation, then low following indicates high expected return
 - If stock following is positively related with probability of under-valuation, then low following indicates low expected return
 - Find low attention, high return, consistent with 1st hypothesis
 - Stocks on the same watchlists comove more
 - Higher attention stocks have quicker reversals after news event
 - Stock following amplifies effects of news on returns
 - Price reaction to EA news are stronger for higher attention stocks
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My Overall View

- Strengths
 - Important research question
 - Novel, unique and rich dataset
 - Many interesting findings
 - But
 - More thoughts on the assumptions
 - The main research question seems not directly answered
 - The findings can be more focused
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Implicit Assumption 1. Watchlist proxies for investor attention

- Reasonable assumption
 - 6.1 million users have one watchlist, 4.1 million don't change their lists over the whole sample (inattention)
 - For the 1.9 million active users who change, on average they add 4 stocks each year and remove 2 each year
 - This particular attention is different from instantaneous attention
 - What type of attention is the watchlist capturing?
 - Different types of attention? Instantaneous vs. serious longer term attention? Attention related to prices vs. to fundamentals and news?
 - More analysis of how this is related to google SVI and AIA?
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A minor comment on the watchlist attention proxies vs. others

- Page 5
 - “The five news type that drive Bloomberg’s AIA attention are **largely different** from the seven that drive watchlist changes ...”
 - Five types: Earnings releases, firm guidance, firm events, stock price movements, and analyst actions
 - Seven types: Stock price movements, earnings releases, trading, firm events, analyst actions, firm guidance, and news on transactions
 - All “five” types are in the “seven” types
 - Largely “same”?
 - Again, what type of attention is the watchlist capturing?
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Implicit Assumption 2. RavenPack proxies for information set

- Again reasonable assumption
 - RavenPack contains an array of financial, operational, and other firm-related news events.
 - Subscribers of watchlists receive emails containing contributor-produced content, breaking news, and transcripts of conference calls
 - Is this information set the same or comparable with RavenPack?
 - Can this be validated?
 - Maybe just pick a few users randomly and check what seeking alpha sent them?
 - Do we know whether the subscribers really read these emails?
 - If these emails are linked to seeking alpha account, maybe can see the number of views and length on the page?
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Implicit Assumption 3. Investors trade stocks on the watchlist

- Additions and deletions of stocks on the list reflect tradings of these investors on these stocks.
 - Page 6, “individuals start following stocks while the stocks are still appreciating but don’t add them to their portfolios quickly enough to realize profitable trades”
 - But there is no trading data in this study.
 - It would be nice to have the trading and holding data of different investors.
 - For institutions, their holdings are in 13f and presumably some of the trading data can be found from Ancerno
 - For retail investors, their trading can also be partially identified using BJZZ (Barber et al.) algorithm.
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The Research Question

- From the introduction, I thought the main research question is
 - “Does stock following allow, or to what degree allow, efficient incorporation of information into prices?”
 - If investors correctly incorporate new information, then a broader following may result in greater informational efficiency;
 - If investors over extrapolate or are characterized by diagnostic expectations, then a broader stock following may result in a lower degree of informational efficiency.

 - I anticipated
 - Dependent variable: information efficiency proxies
 - Independent variables: levels or changes or breadth of following, etc.
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The Research Question

- The empirical results are related to the research question
 - Patterns of watchlist
 - Information capacity constraint
 - Pricing implications
 - Patterns of short term reversal, earnings announcements, related to watchlist dynamics.
 - The original question doesn't seem to have a direct answer.

 - Title: “What's in investors' information set?”
 - Conclusion:
 - Rational inattention
 - Stock following, particularly by retail investors, have destabilizing effects on financial markets.
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What to do? As well as how to organize findings

- Maybe it is much easier to change the title and the research question than changing the empirical results
 - Title proposals:
 - The Watchlist: Rational Inattention and Information-Price Dynamics
 - The Watchlist: Irrational Attention and Information-Price Dynamics
 - ...
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A unified framework

- Empirical structure
 - Dynamics of watchlist
 - Nature of the attention
 - How watchlist is related future price dynamics vs. news
 - Pricing and market quality implications
 - Explanations for the above findings
 - Limited attention
 - Retailers process information efficiently
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Conclusion

- Strengths
 - Important research question
 - Novel, unique and detailed dataset
 - Many interesting findings
 - I learned a lot reading this paper.
 - I also thought a lot about the paper
 - Assumptions
 - Research question
 - Unified framework
 - Best wishes to the paper!
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