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# The customer knows best: The investment value of consumer opinions<sup>†</sup>

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## ABSTRACT

This paper investigates whether consumer opinions convey value-relevant information to financial markets. Using a data set of more than 14.5 million customer product reviews on Amazon.com from 2004 through 2015, I find evidence that consumer opinions contain information for stock pricing. A spread portfolio that is long on stocks with high abnormal customer ratings and short on stocks with low abnormal customer ratings delivers an abnormal return of around 55.7 to 73.0 basis points per month. There is no evidence of return reversals in the subsequent year. The return predictability of customer ratings continues to hold after controlling for firm characteristics such as gross profitability, advertising, research and development expenses, and trading volume. Furthermore, abnormal customer ratings positively predict revenues and earnings surprises. These results suggest that consumer opinions contain novel information about firms' fundamentals and stock pricing.

*JEL classification:* G12, G14, L15.

*Keywords:* Consumer opinions; Serendipitous information; Stock pricing; Cash flow surprises; Wisdom of crowds.

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