



Full length article

Are investors guided by the news disclosed by companies or by journalists?

Zilu Shang^a, Chris Brooks^{a,*}, Rachel McCloy^b^a ICMA Centre, University of Reading, UK^b School of Psychology and Clinical Language Sciences, University of Reading, UK

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ABSTRACT

Most previous studies demonstrating the influential role of the textual information released by the media on stock market performance have concentrated on earnings-related disclosures. By contrast, this paper focuses on disposal announcements, so that the impacts of listed companies' announcements and journalists' stories can be compared concerning the same events. Consistent with previous findings, negative words, rather than those expressing other types of sentiment, statistically significantly affect adjusted returns and detrended trading volumes. However, extending previous studies, the results of this paper indicate that shareholders' decisions are mainly guided by the negative sentiment in listed companies' announcements rather than that in journalists' stories. Furthermore, this effect is restricted to the announcement day. The average market reaction – measured by adjusted returns – is inversely related only when the announcements are ignored by the media, but the dispersion of market reaction – measured by detrended trading volume – is positively affected only when announcements are followed up by journalists.

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1. Introduction

Information sources are crucial in financial markets. The two main branches of studies on how information affects stock market performance have focused on quantitative (numerical) information and qualitative (textual) information. Financial scholars have traditionally preferred to analyse numerical information, being critical of the wide variation in interpretation of textual expression in different contexts (Brun and Teigen, 1988). In addition, shareholders might hold the opinion that the numerical data in listed firms' reports are more precise and credible

(Botosan, 1997; Mercer, 2004). However, this does not mean that textual information is not important concerning stock market performance. In fact, textual expression is at least as important as numerical information in driving stock market performance. Investors are more likely to be attracted by textual expressions that explain risk and are able to understand them better (Visschers et al., 2009). From the perspective of the information outlets of listed companies, managers may create a favourable narrative if possible (Clatworthy and Jones, 2006; Schleicher and Walker, 2010; Guillanmon-Saorin et al., 2012), carefully selecting among numerical, textual, and graphic information (Skinner, 1994; Kasznik and Lev, 1995; Muiño and Trombetta, 2009).

Most previous studies on how the qualitative cues of information outlets affect market performance have focused on two areas: information coverage and information

* Correspondence to: ICMA Centre, Henley Business School, University of Reading, Whiteknights, Reading RG6 6BA, UK. Tel.: +44 0 118 931 6768; fax: +44 0 118 931 4741.

E-mail address: c.brooks@reading.ac.uk (C. Brooks).

tone.¹ Studies on information coverage show that both media and analyst coverage significantly affect stock market performance, depending on the specific type of press release (Bamber and Cheon, 1995; Klibanoff et al., 1998; Lee and Swaminathan, 2000; Diether et al., 2002; Bushee and Miller, 2007; Fang and Peress, 2009; Engelberg and Parsons, 2011; Gurun and Butler, 2012; Solomon, 2012). This paper relates to the second branch and addresses the relationship between the tone of disposal stories and stock market performance—returns and trading volumes.

In this paper, the tone or the sentiment of disposal stories is measured by the occurrence of positive, negative, and uncertainty language in accordance with the Loughran and McDonald Financial Sentiment Dictionaries (LMFSD). Most previous studies on how the sentiment of information affects market performance have analysed earnings-related information outlets, sampling either the regulatory announcements (Abrahamson and Amir, 1996; Loughran and McDonald, 2011) or the voluntary disclosures (Henry, 2008) released by listed companies themselves.

Others emphasise the importance of how the mass media report earnings-related information about listed companies to readers (Tetlock, 2007; Tetlock et al., 2008; Gurun and Butler, 2012). Theoretically, as long as a piece of information may affect the fundamentals of the underlying company, the sentiment released by the information itself might also affect market performance in the same way as the earnings-related information. Weak evidence is found from research on news about corporate governance changes in the Italian media (Carreta et al., 2011). However, this cannot be generalised to other types of information outlets in other stock markets. Therefore, the first intention of this paper is to find out whether, as well as earnings and governance related information, the sentiment of information revealed by other types of fundamental disclosures can explain stock performance in a mature equity market. This study emphasises disposal transactions, which theoretically relate to companies' fundamental values because of their impacts on a company's liquidity position, future productivity and profitability, and on-going strategies. In this paper, we define a disposal as including any divestiture of a subsidiary from the parent company, the disposal of tangible or intangible assets, or the divestiture of share holdings in other companies—any situation where the Regulatory News System classifies the information as a 'disposal'. The results convey that the sentiment in disposal press releases does affect stock performance, from the perspectives of both returns and trading volumes. Consistent with previous studies, negative words have a more significant impact than other types of sentiment (Tetlock, 2007; Tetlock et al., 2008; Loughran and McDonald, 2011; Gurun and Butler, 2012).

Shareholders have two main information sources—the original announcements made by listed companies and

the stories reproduced by journalists or analysts.² However, no one can guarantee that listed companies and journalists (analysts) will tell the same story in an identical way, as they serve different purposes (Fang and Peress, 2009). In addition, sometimes the mass media may revive a stale news item but the market responds to it as the latest one (Huberman and Regev, 2001; Cavalho et al., 2011; Tetclock, 2011). Investors, especially individuals, who are not able to continually monitor share prices and cannot trace every single announcement made by their investee companies, may derive more information from journalists and/or analysts. Furthermore, shareholders may treat journalists' and managers' stories differently if they realise, for example, that the mass media are prone to use fewer negative words when reporting news about local firms (Gurun and Butler, 2012) or that managers tend to select the information they provide and how they interpret it (Skinner, 1994; Kasznik and Lev, 1995). Kothari et al. (2009) have documented the sentiment inconsistency between listed companies and analysts, so another motivation of this paper is therefore to examine the possible change in sentiment between listed companies and media journalists and to address the question of whether investors follow listed companies or journalists more closely. In endeavouring to explain the sentiment in information concerning earnings-related press releases, previous studies cannot isolate the impacts related to companies' announcements from those of media stories.³ Unlike earnings-related stories, which exhibit mass media clusters around announcement dates (Tetlock et al., 2008), disposal announcements are dispersed across the calendar year so that the comparison of market reactions to listed companies' announcements and media stories is possible. This study therefore analyses two subsamples and demonstrates that market participants treat the sentiment in listed companies' stories differently from how they value mass media stories. Generally, the effect of negative sentiment in companies' announcements on non-firm specific information adjusted returns is significant when the original announcements are not reproduced by the media; while its effect on detrended trading volumes is significant only when the original announcements are followed by journalists.

The layout of this paper is as follows. Section 2 gives a brief review of previous studies on the impacts of information sentiment on stock market performance. Section 3 presents the information data which are analysed in this paper and how information sentiment and market performance are measured. Section 4 presents the study's results, including descriptive statistics of the data, the results related to returns, and those related to trading volumes. Section 5 presents some general conclusions.

¹ There are some other studies finding that vocal cues of managers during conference calls (Mayhew and Wenkatachalam, 2012), the number of questions that managers refuse to answer in conference calls (Hollander et al., 2010), and discussions on the Internet (Antwiler and Frank, 2004; Clarkson et al., 2006), also significantly affect stock market performance.

² Investors may also receive information from an asset manager or analyst. This, perhaps, represents a third source of information that we do not directly address in this paper.

³ It is difficult to establish a sample of earnings announcements without corresponding media news because both reporters and analysts are attracted by earnings announcements, so that media news tends to cluster around such announcements (Tetlock et al., 2008).

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