PROPOSAL: “SOCIAL MEDIA AND SLANT IN THE MARKET FOR FINANCIAL ANALYSIS.”

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The goal of this project is to study the effects of financial blogs and social media on the reporting of financial analysts. Efficient outcomes in many markets depend on individuals having accurate information, yet because of conflicts of interest, the suppliers who report this information may be biased. There is a large literature that documents that analyst forecasts and recommendations tend to be biased. Using exogenous variation in the concentration of financial bloggers covering an equity, we plan to examine whether bloggers produce new or false information about firms or whether they reinterpret existing information with less slant. Using text-based analysis of the content produced on 20+ financial blogs (Seeking Alpha, Motley Fool, etc.) over 7 years, we examine whether the free provision of less biased content by bloggers puts pressure on subsequent analysts to produce less biased reports. We also plan to examine whether the analysts’ content choice in their subsequent reports overlaps with that of the bloggers. Finally, from an investors’ perspective, a trading strategy based on blogger concentration and analyst slant will be examined.

This project involves working with large amounts of data, as we are pulling data from bloggers’ websites, media articles, and many conventional financial databases (CRSP, COMPUSTAT, IBES). This will be a great opportunity for a student to learn how to manage “big data” projects and also to improve their understanding of finance and econometrics.

Successful applicants will have good programming skills (and preferably a familiarity with STATA), be detail-oriented and resourceful.