

Kwan, Liu, and Matthies (2023) - “Institutional investor attention”

Discussion by Ahmed Guecioueur

BFWG Conference

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Summary

Comments

Summing up

Setting

Data

- ▶ Granular dataset of news consumption by individual users
 - ▶ Including users who work for institutional investors (“funds”)
 - ▶ Including news articles written about firms
- ▶ User identification based on IP addresses and cookies
- ▶ Article types, content & sentiment classified by Ravenpack

Attention

- ▶ Attention can be measured based on news consumption
- ▶ Kwan, Liu, and Matthies (2023) study the attention paid by individual funds to the macroeconomy & to firms
 - ▶ Cf. SEC EDGAR captures firm-specific filing downloads only
- ▶ Goal: to test various theories of limited attention, by relating individual funds' attention to their portfolio choices

Findings

Aggregate vs. firm-specific attention allocation

- ▶ During periods of high aggregate volatility, funds re-allocate their attention from firm-specific news to macroeconomic news
 - ▶ Consistent with Peng and Xiong (2006), Kacperczyk, Van Nieuwerburgh, and Veldkamp (2016), and other rational models
- ▶ Funds that reallocate more strongly enjoy better performance
 - ▶ \Rightarrow mechanism involves optimal allocation, *not salience*

Firm-specific attention allocation

- ▶ At a stock level, higher attention \times higher holdings
 \Rightarrow higher “value-add”
- ▶ Characterize news content by value-add

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Paying attention: reading news articles?

- ▶ Institutional investor i 's attention measure $InstAttn_{ist}$ is defined on pp. 19 as “share of attention on stock s at time t ”

- ▶ I believe this is defined based on article reads? i.e.

$$InstAttn_{ist} = \frac{\text{Articles read about } s \text{ by } i \text{ during } t}{\sum_s \text{Articles read about } s \text{ by } i \text{ during } t} \quad (1)$$

over stocks $s \in \{ \text{all stocks read about by } i \text{ during } t \}$?

- ▶ Could interpret “attention” more like the cost/effort expended:

$$InstAttn_{ist} = \frac{\text{Time spent doing research on } s \text{ by } i \text{ during } t}{\text{Total time spent by } i \text{ doing research during } t} \quad (2)$$

- ▶ Two stocks s and s' may be equally read about by i during period t , but if many articles were published about s and very few about s' , it seems incomplete to assign them equal attention shares, as more effort (& attention?) was required to read the articles about s'

- ▶ \Rightarrow Eqn. (1) should somehow normalize for search costs

- ▶ Incorporate the total number of articles published about s during t ?

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Incorporating other elements of attention-based models

Attention capacity/budget

- ▶ Can you measure this? Example: count unique readers per fund
- ▶ Would be interesting to analyze **how investors with different attention budgets choose to allocate this capacity across stocks**
- ▶ Somewhat related to my previous comment on attention shares

Sector factor structure of payoffs/returns

- ▶ These are explicitly modeled by Peng and Xiong (2006, Eqn. 4 & 6)
- ▶ Can you count the number of news articles that are **industry-specific**, rather than **firm-specific**? If so, could analyze these separately
 - ▶ Related point: are you excluding articles that mention multiple firms from your existing firm-specific analysis?

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Other points

- ▶ Footnotes 4-6: Why do you need to supplement Ravenpack's classifications with your own ML classifications?
- ▶ Page 24: Didn't understand the reasoning for a -ve (rather than 0 or +ve) **relationship between attention to sells and value-add?**
- ▶ Table 5: Shouldn't the article fractions also be normalized by the total number of articles published about the stocks?
 - ▶ Similar to my earlier comment on defining attention shares
- ▶ Tables 9 & 10: **"newsy-ness"** quartiles
 - ▶ Didn't understand how "newsy-ness" quartiles are used. While the caption seems to mention subsample analyses by "newsy-ness", the tables don't seem to do any kind of split?
 - ▶ "Supply of news articles" seems more formal
 - ▶ Even better would be to control for the number of **unique** news events (which are potentially repeated across articles) – is that possible using Ravenpack? Or by focussing on earnings events?

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Conclusion

Very interesting paper

- ▶ Great data – and great use of the data!
- ▶ Main comments essentially all relate to how closely theoretical constructs are being tested
- ▶ And a few minor points

Good luck!

References

- Kacperczyk, Marcin, Stijn Van Nieuwerburgh, and Laura Veldkamp. 2016. “A rational theory of mutual funds’ attention allocation.” *Econometrica* 84 (2): 571–626.
- Kwan, Alan, Yukun Liu, and Ben Matthies. 2023. “Institutional investor attention.”
- Peng, Lin, and Wei Xiong. 2006. “Investor attention, overconfidence and category learning.” *Journal of Financial Economics* 80 (3): 563–602.