Does Social Media Get Your Attention?*

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JOB MARKET PAPER

August, 2016

Abstract

This paper investigates how social media affects stock prices and post-earnings-announcement drift in response to companies’ quarterly earnings announcements. We attempt to build a theoretical model to estimate the price response that is caused by investors’ attention by utilizing Bayesian learning. Using quarterly earnings data and Twitter and StockTwits data (17 quarters from the fourth quarter of 2010 to the fourth quarter of 2014), we utilize Twitter volume and a residual methodology to generate an attention proxy that is orthogonal to the growth of Twitter accounts. We find that the new attention brought by social media after the earnings announcements positively affects the cumulative abnormal returns and the magnitudes are larger than the earnings surprise effects. Finally, we find that even companies reporting bad news can still have positive immediate cumulative abnormal returns if they attract enough attention from investors after an earnings announcement.

* First version 2015. I am thankful for the useful discussions with Vicki Bogan, Pamela Moulton and Byoung-Hyoun Hwang.
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