Printed news is the old news: The role of local media in local trading activity and local stock returns

Swedish House of Finance, Stockholm School of Economics

Citation for the published paper:
Mavruk, T. (2016) "Printed news is the old news: The role of local media in local trading activity and local stock returns". Swedish House of Finance, Stockholm School of Economics

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The role of local media in local trading activity and local stock returns

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October 24, 2016

Very Preliminary Results
Comments Welcome

Abstract

The average individual investor's local bias is reported to increase over time after moving to a new location (see Bodnaruk, 2009). It is also documented that there is birthplace bias in addition to local bias and that the local bias is significantly higher for native locals (individuals who live in their birthplaces) than incomers (individuals who moved into the district) (see Lindblom, Mavruk, and Sjögren, 2016). Examining the portfolio choices of particularly the incomers might be important to understand the changes in demand for local stocks as they seem to bring a significant amount of capital into the new district. Thus the average incomer is a potential candidate for becoming a marginal investor who may have a demand for local stocks. Using investor data from Sweden the mentioned studies examine the relation between local bias and portfolio returns and propose either local information advantage or familiarity based explanations for the local bias of incomers. In this paper I extend these findings by examining and comparing the role of local media in local trading activity and the trade performance of incomers and native locals. Introducing an information channel such as local media might help us better understand the reasons for local bias.

The data show that about 5.66% of the individuals moved to another address at least once during the study period, and the average portfolio value of incomers is about 40.30% of the average portfolio value of native locals. An average incomer tends to be a 39 years old male (15 years younger than the average native local), and has a trading experience (measured by the number of trades made in the past) about 76.55% of an average native local. My analyses show that local media has a larger impact on the local trading activity of incomers than on native locals. One explanation for this result is that native locals are more prone to utilize their social networks and turn to the old-fashioned word of mouth method when it comes to obtaining and sharing local information, whereas incomers may lack this opportunity and instead obtain their local information from local media. A competing explanation would be in line with a type of familiarity hypothesis. Native locals are documented to be more locally biased than incomers. The result that local media does not influence their trades (as much as the trades of incomers) points to the direction that their local bias can be explained by the feelings based familiarity hypothesis, and not by an interpretational advantage of local information.

I also find that local media seems to induce local investors to become net buyers, which may generate overpricing and thus may predict low subsequent stock returns. The results are stronger in rural districts, known as relatively poor information environments and home for

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illiquid firms, firms with high idiosyncratic volatility, and informationally opaque firms (see Hong, Kubik, and Stein, 2008). The results also show that it is the local web page news, rather than the local printed press news, that influence local trades. The results from profitability regressions are on the other hand inconclusive. In contrast to the local media effects, I find that the national media has weaker effects and that the type of national media (printed news or web page news) does not seem to matter for local trading activity. Moreover, I find that local media has a larger impact on the local trading activity of less financially sophisticated local investors, indicating that the more sophisticated investors may not need local media and turn to other information channels such as word of mouth method to consume their local information. These results may add to the previous findings in Hirshleifer, Myers, Myers, and Teoh (2008) and Giannetti and Laeven (2016).

The individuals seem to face a lot more information search costs when choosing stocks to buy rather than when choosing stocks to sell (perhaps because the average individual investor does not sell short). The local information also appears to matter when individuals face this type of information search problem. My results are consistent with this notion and show that local media tends to influence individuals’ purchases (from a large set of stocks) more than their sales (from a smaller set). This finding indicates that local information decreases individuals’ information search costs when buying stocks.