

Mass Media: Investors' Sentiments and the Outcome of Stock Market

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Abstract: Media has a huge influence on people's living style and changes the way of receiving information making messages of various sources available to the public, information that exposed by media should being able to influence investor on the decision-making process and such interaction would further trigger the outcome of stock market. But how was the process of has been made and why is that happened, plus where this action will lead to? Literature review is the primary research method that has been used in this paper to study mass media, investors, and the stock market through an electronic library and its resources. The statistics used in this paper are mostly from reading materials that have been listed in the reference section. The information and atmosphere leaked by the media reflect past situations and interact with investor sentiment, which further indirectly affects or predicts the market. For the correlation between volume and volatility, the number of messages leads to increased volume and increases volatility.

Keywords: media, sentiment, investor, stock market

1. Introduction

This article is going to talk about whether news released by social media or other channels can influence investors, and if so, how it does so. The motivations for users to post news and their viewpoints that they do believe rather than points that they made on purpose for some goal have been discussed, as have the motivations for users to post news and their viewpoints that they do believe. This paper mentions an assumption about the voice of the media, investors' sentiment, the performance of the market, and how the messages affect the stock markets. Plus, the actual performance difference between media-covered stocks and less-discussed small stocks has also been discussed in this passage.

2. The Widely Use of Mass Media in Stock Market

As we know, most investors in the stock market expect the stocks they choose to make a return for them. To achieve the profitable goal, they must carefully select stocks and make trading decisions based on a wealth of information, both public and private [1]. One way of tracing information is through social media or the news press, which grants investors valuable information and helps investors form their own views. While they consider the firm's future potential, they refer to the management of the firm, the latest news about the firm, and the law that is executed on the firm,

which are factors that influence the situation of a firm. Just as this paper has discussed in the previous part, media play a big role in the disclosure of information to a wide range of audiences. Weekly, approximately 55 million newspapers, approximately 20% of which were sold to separate readers in the United States [2]. The number would be larger if we count the electronic versions and extra readers of one individual newspaper. With such a large number, we can infer the media's enormous influence on the security markets. People care more about their peer customers' opinions than the pros', which is triggered by the emergence of various media that mean new ways of gaining information [3]. Similarly, peer opinions begin to influence financial markets. Financial analysis has gradually been sent out by the investors themselves, which infers that more investors have contributed their views to social media, slowly using social media as a platform to publish and receive financial-related information. "As of 2008, nearly one in every four adults in the United States reported directly relying on investment advice transmitted via social media outlets, and regulators conclude that "social media is landscape-shifting," with its relevance to financial markets only growing [3]." Or are there some people who make use of mass media to leak out misleading messages to manipulate the running of the market because people don't have to take responsibility for saying things on the platform?

3. What Motivates People to Share and the Baleful Use of Media

There are few incentives for people to share useful information on the Internet. The first is that once the users publish their views that are confirmed or verified by the stock market, they can get more attention. The second is that contributors can earn more money if their articles have been seen many times; more accurately, the more views, the greater the reward. If the sharers are well educated and used to getting many views and attention, naturally, these kinds of people are good view-sharers and good producers. The third is based on the attribute of social media itself: there is a review section at the bottom of the article posted by the contributor, which means that readers can give their feedback immediately after they read the article. In this way, readers can identify the content posted by contributors according to the comments, and these comments may further correct the point made by contributors, which plays a role in purifying the information. Furthermore, these incentives have made a small effort to prevent the spread of false information that may be caused by people's desire, selfishness, or even a simple joke. There is one thing to note, which is that there is nearly no actual punishment for sending out wrong or misguided messages on mass media. One manipulative example is about a famous commercial star, Elon Musk, who is the head of Tesla. Elon Musk proposed purchasing Twitter for 430 billion dollars on April 14, 2022, in order to make Twitter a free-to-use media platform. Before this, Elon Musk purchased 9.2 percent of the stock shares of Twitter at a price of 26.4 billion dollars, and this action made him the biggest shareholder in Twitter [4]. Elon was not allowed to own more than 14.9 percent of the company after the board invited him to join them. Elon sent a few tweets to criticize Twitter and then was rejected to join the board. The board of Twitter started a shareholders' rights plan, a so-called "poison pill," to deny a hostile takeover. On April 24th, 2022, the big deal was about to be made, and the board of Twitter received the 440 billion dollars acquisition the next day. On May 13th, Elon sent a tweet to indicate that the delay of the acquisition directly caused Twitter's price-per-share to seriously drop by over 19 percent before the stock markets opened [5]. As a result, Twitter's board filed a lawsuit accusing Elon Musk of market manipulation. This is a vivid example of how information released in the media influences the stock market. This is also a typical instance of manipulative information on social media.

4. How Media Effect the Stock Market and the Interaction Between Them

There is an assumption that a high level of pessimism, the negative prediction exposed by the media, combined with the low expectations held by investors, causes a price depression [6]. Vice versa, the

low level of pessimism and high expectations that investors hold result in a good performance in price. Whether mass media can predict the fluctuation of investors' moods is ambiguous, or even whether it is an interaction. The gathered investors' sentiment in the past and future was represented by the media's pessimism. One discovery is that high pessimism combined with a low past return on stocks implies a low money return in a short period of time and a high potential in the long run. Many people spend a lot of time reading articles about stocks and spending a lot of time making wise and rational decisions. The messages on the Internet have an important effect. One relevant question is whether the market shifts first or the message shifts first. So, potentially, this question is about clarifying the sequence to ensure whether the messages can forecast the stock market. There are many conjectures that vary in different ways. It is easy to find reviews about recent events, which infers that people are sending their viewpoints about what happened in the market, which is very likely to happen and is logical. In this way, how the stock markets influence messages is a significant problem. Many reports and messages talk about whether the stock is good or not. It is possible to predict the return if people on the internet are informed better than marginal traders. The prediction had been claimed by finance media, but economists seriously doubt the authenticity of such a prediction. Investors think about the stocks first and then decide whether to trade or not. Many of them would like to share their ideas and discuss them with others. Let's suppose that once they discuss stocks, they share their thoughts on social media, which would trigger off trading volume. Volume and volatility shift together; this implies that the prediction will also forecast volatility while they influence the trading volume. But it turns out that the messages do not have special predictive ability, and most of the messages hold an extremely positive view of the stocks, although some of them did not perform well. More messages beyond the content have been delivered; messages have been sent talking about a specific company at a specific time period; this is a message itself. At times, reviews are frequently posted, but there are also fewer posted during a specific time period. The number of messages is positively related to how active the market is; more messages When number over the average of messages, the trading volume incline to rise. As we said about volume and volatility, volatility tends to be high when the number of messages exceeds the average number. Another interaction between the media and investors is that the media can fluctuate the security pricing, even though it provides inauthentic news. This theory has been refined by the cross-sectional relationship between mass media and stock returns. The stocks have been divided into 2 categories, one is stocks that are referred by mass media and the other is stocks that haven't been covered by media. Consequently, a considerable future return has been earned by non-media stocks, and relatively large stocks that have been heavily reported earn a lower return after considering lots of risks. More specifically, the stocks with no exposure surpass stocks that have been discussed frequently by 3 percent each year in the situation that values factors such as liquidity, size, and the market itself. This trend is more visible in small stocks that have been exposed by the media for a shorter period of time and have been thoroughly examined. The no-media premium represents a mispriced stock; the investors who want to make money would hold the stock to utilize it and eradicate it. Once the friction is critical, the mispriced stock would appear to block traders from eradicating it. Another explanation is that the edge of no media stock may represent the reward for its flaw, the disappointed approval of investors, in order to compensate its stockholders. The approval of investors would increase if information had been seen by large audiences, which can be reached using media. The media effect of small and medium-sized stocks and stocks with large price differences is violent, which fits the first explanation above. The phenomenon is also severe among stocks that have serious information issues. The findings indicate that the role of mass media in disseminating information is especially significant for stocks that have incomplete information exposed to investors. However, the barriers to trade may explain the continuous existence of such phenomena. In non-media premium, it does not illustrate why it came up in the first place. Given the delay in publication, information contained in

the mass print media is unlikely to be real news. But the media disseminate information to a wide audience. Therefore, our results on the role of the media suggest that the extent of information dissemination influences user feedback. An interesting implication of our results is that non-informative channels such as the media and even a company's public relations program can affect a company's cost of capital. Market participants and business leaders recognize that the dissemination of information plays an important role; it plays a key role in determining the cost of capital, and the focus has always been on these channels as a disclosure report and stock analyst [7].

5. Conclusion

The opinions of peers who use social media are more widely considered, and the media mechanism is encouraging nice content to be spread, even if the quality of the content cannot be completely affirmed due to the various speeches that web users do not need to take so many moral or legal sanctions for talking. The message and atmosphere leaked by the media are reflections of the past conjuncture and interact with the sentiment of investors, further indirectly influencing or predicting the market. Then it is about how the released messages influence stocks. The volume of messages would increase trading volume and volatility due to the correlation between volume and volatility. In the part between media coverage and stock returns, there is a pattern that stocks that were not mentioned by the mass media perform well compared to stocks that were covered by the media for 0.2 percent per month, and this conclusion is based on considering various factors like the fraction of individual ownership and low analyst coverage.

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