Title: **CROSS-FIRM INFORMATION FLOWS**

Speaker: **Anna Scherbina**
University of California, Davis

Importance: Why this matters:

Scherbina and her co-author investigate whether news about one company reverberates in other individual stocks. The conclusion is positive, but the evidence shows that sophisticated traders are aware of the information, thus speeding up information diffusion.

Investigation: "Speaker analyzed XXX data to address the questions yyy, zzz, etc."

"News leaders" are identified using simple Granger-causality methodology, a fancy name for pair-wise regressing 12 monthly returns for each stock against the lagged returns of every other stock, roughly half a million regressions per month. A stock is identified as a leader (positive or negative) when the coefficient on its lagged returns has a significant t-statistic. False identifications were eliminated through reference to news sources, eliminating about half of the "leader" classifications.

Innovation: Are there new techniques of interest in the data or approach to the problem?

Granger-causality is obviously a blunt-force method that cannot distinguish predictive causality from true causality, but it is interesting to see it used as an exploratory technique. (Granger himself in his Nobel laureate speech warned against "ridiculous conclusions!)

Insights: 1-2-3, what are the three most important things the speaker offered?

1. Firm-level information leaders generate significant return predictability for followers at monthly horizons. Weekly regressions produced stronger results.

2. Predictability works best <u>within</u> industries.

3. An extension to the analysis indicates that short-sellers (and presumably other sophisticated traders) trade on this information. Evidence: the effect was much stronger in the 1929 to mid-1970's than it was in more recent periods.

Audience rating: 4.31