

Investor Sentiment Under a Microscope*

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Abstract

Market-wide investor sentiment are known to exert influence on stock prices, yet measuring firm-specific investor sentiment has been a subtle job. We examine how the build-up of company related investor sentiment in news and social media overnight affects opening stock returns. Using intraday textual analysis sentiment scores of the Dow Jones Industry Average (DJIA) constituents provided by Thomson Reuters MarketPsych Indices (TRMI), we find that sentiment during non-trading hours contains strong predictability in explaining overnight returns. Specifically, sentiment from social media induces larger changes in opening prices than news media. Negative sentiment impacts on opening returns at higher economic magnitudes than positive sentiment. These phenomena quickly vanish after the first minute of trading. Our results suggest that opinions and investor moods travel faster with the boom of social media. Overall, our evidence supports that overnight individual company sentiment is better exploited in the pre-market period that helps improve market efficiency.

Keywords: Investor sentiment; social media; high frequency data; market efficiency; Thomson Reuters MarketPsych Indices (TRMI)

JEL: G14, G40, G41

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