Information and Financial Markets

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Akademisk avhandling

som med vederbörligt tillstånd av Rektor vid Umeå universitet för avläggande av filosofie doktorsexamen framläggs till offentligt försvar i Hörsal E, Humanisthuset, Onsdagen den 29 augusti 2018, kl. 10:00. Avhandlingen kommer att försvaras på engelska.

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Abstract
The results in this thesis are consistent with the hypotheses that: 1) the incomplete dissemination of information across investors helps in explaining the occurrence and the persistence of cross-sectional stock return anomalies, 2) the properties of the investor base of a stock have implications for the informativeness of the stock’s price and 3) a greater quantity of firm disclosure places less sophisticated investors at an information disadvantage. Overall, the thesis provides new empirical evidence about the role of information in financial markets.

Investor Base and Stock Return Anomalies
After controlling for market capitalization, the predictability of future stock returns associated with each of the earnings-to-price ratio, the book-to-market ratio, the past return, the total volatility of returns and the return on assets is more pronounced among stocks with smaller total and/or institutional investor bases. These results appear even after controlling for several other stock characteristics and potential risk factors and they are both statistically and economically meaningful. Thus, they are consistent with the hypothesis that the incomplete dissemination of information across investors helps in explaining the occurrence and the persistence of cross-sectional stock return anomalies.

Investor Base and Stock Price Informativeness
The relative idiosyncratic volatility of future stock returns is: 1) negatively associated with the absolute size of the total and the institutional investor base, 2) positively associated with the institutional ownership, 3) negatively (positively) associated with the average stock portfolio size (Herfindahl index) of the investor base and 4) positively associated with the indirect (i.e., through nominees) ownership. These results appear after controlling for several other stock characteristics and they are both statistically and economically meaningful. Thus, they are consistent with the hypothesis that the properties of the investor base of a stock have implications for the informativeness of the stock’s price.

Individual Investors and Quantity of Firm Disclosure
When the amount of information disclosed by a firm is greater (or increases), the stock portfolio weights that individual investors allocate (through trading) to that firm’s stock are lower (or decrease) and suboptimal. The former result is less pronounced or nonexistent for more financially competent individuals and for positions in firms with a poorer information environment. When they do allocate greater portfolio weights to the stock of a firm that discloses more, individuals, regardless of their financial competence, earn lower returns. Overall, these results are consistent with the hypothesis that a greater quantity of firm disclosure places less sophisticated investors at an information disadvantage.

Keywords
Information, dissemination of information, production of private information, information disadvantage, investor base, stock return anomalies, stock price informativeness, quantity of firm disclosure, less sophisticated (individual) investors.