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NEWS, SEARCH AND STOCK CO-MOVEMENT: INVESTIGATING INFORMATION DIFFUSION IN THE FINANCIAL MARKET

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ABSTRACT

With the increase of global economic integration and business connections, stock performance in the securities market display increasing co-movement. Such co-movement is an important vehicle for risk and portfolio management in the finance arena. Thus, it is important for academics and practitioners to understand the mechanisms behind this co-movement. We focus on information diffusion and investigate the relationship between firm co-mentions and return co-movement, as well as the mediating role of search co-attention. By using sentiment analysis techniques, we further divide the firm co-mention relationships into supporting co-mentions and opposing co-mentions. Experiments were conducted based on stock data for 300 companies in the Shanghai-Shenzhen 300 Index, their public information, and Baidu’s search volume data on those companies. Supported by information processing theory and prospect theory, our results indicate that information co-mentions (including supporting co-mentions and opposing co-mentions) has a significant influence on the return co-movement. Search co-attention plays an important mediating role in the relationship between firm co-mentions and return co-movement. More specifically, opposing co-mentions have a greater impact on search co-attention than supporting co-mentions, as well as a greater impact on return co-movement than supporting co-mentions. These findings provide important insights for the theoretical and practical implications.

Keywords: Firm co-mentions; information processing; prospect theory; search attention; sentiment analysis; stock co-movement

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