

Accepted Manuscript

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PII: S0304-405X(18)30026-6
DOI: [10.1016/j.jfineco.2018.02.001](https://doi.org/10.1016/j.jfineco.2018.02.001)
Reference: FINEC 2856

To appear in: *Journal of Financial Economics*

Received date: 28 April 2016
Revised date: 16 February 2017
Accepted date: 21 February 2017

Please cite this article as: Jiekun Huang, The customer knows best: The investment value of consumer opinions, *Journal of Financial Economics* (2018), doi: [10.1016/j.jfineco.2018.02.001](https://doi.org/10.1016/j.jfineco.2018.02.001)

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The customer knows best: The investment value of consumer opinions[†]

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ABSTRACT

This paper investigates whether consumer opinions convey value-relevant information to financial markets. Using a data set of more than 14.5 million customer product reviews on Amazon.com from 2004 through 2015, I find evidence that consumer opinions contain information for stock pricing. A spread portfolio that is long on stocks with high abnormal customer ratings and short on stocks with low abnormal customer ratings delivers an abnormal return of around 55.7 to 73.0 basis points per month. There is no evidence of return reversals in the subsequent year. The return predictability of customer ratings continues to hold after controlling for firm characteristics such as gross profitability, advertising, research and development expenses, and trading volume. Furthermore, abnormal customer ratings positively predict revenues and earnings surprises. These results suggest that consumer opinions contain novel information about firms' fundamentals and stock pricing.

JEL classification: G12, G14, L15.

Keywords: Consumer opinions; Serendipitous information; Stock pricing; Cash flow surprises; Wisdom of crowds.

[†]I am grateful to Avaniidhar Subrahmanyam (the referee) for detailed and insightful comments that substantially improved the paper. I thank Heitor Almeida, Lauren Cohen, Don Fullerton, Itay Goldstein, Tim Johnson, Byoung-Hyoung Hwang, Dana Kiku, Eric Kelley, Nolan Miller, Neil Pearson, George Pennacchi, Joshua Pollet, Alexei Tchisty, Scott Weisbenner, Mao Ye, and seminar participants at University of Illinois at Urbana-Champaign and Cubist Systematic Strategies for comments and helpful discussions. Bitian Qi, Ming Wang, Yue Wang, Zhongnan Xiang, and Xian Zhang provided excellent research assistance. Financial support from the Campus Research Board at the University of Illinois is gratefully acknowledged. I retain responsibility for any remaining errors.

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