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## Seminar Thesis Topics FSS 2015

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- Topic R1:** Does Media Coverage of Stocks Affect Mutual Funds' Trading and Performance?  
Advisor: Pavel Lesnevski
- Topic R2:** Fund Manager Use of Analyst Recommendations  
Advisor: Pavel Lesnevski
- Topic R3:** Analyst Recommendations, Mutual Fund Herding and Stock Returns  
Advisor: Pavel Lesnevski
- Topic R4:** Investor Attention and Economic Uncertainty  
Advisor: Anja Kunzmann
- Topic R5:** Investor Attention and Index Performance  
Advisor: Anja Kunzmann
- Topic R6:** Investor Attention and Earnings Announcements  
Advisor: Anja Kunzmann
- Topic R7:** Investor Attention and the Cross-Section of Stock Returns  
Advisor: Michael Ungeheuer
- Topic R8:** Driven to Distraction?  
Advisor: Michael Ungeheuer
- Topic R9:** Product Market Advertising and Investor Attention  
Advisor: Michael Ungeheuer



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**Topic R1: Does Media Coverage of Stocks Affect Mutual Funds' Trading and Performance?**

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**Classification:** Empirical topic

**Advisor:** Pavel Lesnevski

Barber and Odean (2008) show that stocks with salient characteristics, such as extreme one-day returns or high turnover, attract investor attention. The authors conclude that it is trading of retail investor that is influenced especially strongly. Fang and Peress (2009) point out one more attention-grabbing characteristic that affects investor behavior – the media coverage of stocks. They find that stocks which are barely covered by the media earn higher returns than stocks which are in the focus of the news media. Fang, Peress, and Zheng (2014) investigate whether media coverage also affects decisions of professional investors, in particular mutual fund managers. They find that some fund managers indeed have a high propensity to trade media-covered stocks. As a result such funds underperform their peers. This finding is consistent with the notion that even professional investors can be subjected to limited attention.

The goal of this seminar thesis is to first replicate the findings of Fang, Peress, and Zheng (2014). Additionally, students should extend the results of the paper by obtaining other attention-grabbing characteristics and analyzing their impact on mutual funds' trading and performance.

**Requirements:**

The empirical work for this topic requires the use of statistical software (e.g. Stata), manipulation of data and the application of econometrics methods. Some experience in this area would be helpful. A dataset on U.S. equity mutual fund holdings and media coverage will be provided.

**Introductory Literature:**

Barber, B.; Odean, T. (2008): All That Glitters: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors, *Review of Financial Studies*, 21, pp. 785-818.

Fang, L.; Peress, J. (2009): Media Coverage and the Cross-Section of Stock Returns, *Journal of Finance*, 64, pp. 2023-2052.

Fang, L.; Peress, J.; Zheng, L. (2014): Does Media Coverage of Stocks Affect Mutual Funds' Trading and Performance? *Review of Financial Studies*, 27, pp. 3389-3440.

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**Topic R2: Fund Manager Use of Analyst Recommendations**

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**Classification:** Empirical topic

**Advisor:** Pavel Lesnevski

The finance literature documents that sell-side equity research has a positive value for investors (see, e.g., Jegadeesh et al. 2004). Do mutual fund managers follow stock analysts' recommendations? Is the fact that fund relies on analyst recommendations a good signal for the fund's investors? The study by Kacperczyk and Seru (2007) addresses these questions. The author calculates the sensitivity of funds' trades to analyst recommendations, which they name Reliance on Public Information (RPI). They hypothesize that skillful managers should rely on private information rather than public information such as analyst recommendations. They confirm their hypothesis by showing that funds with lower RPI levels earn higher returns.

The goal of this seminar thesis is to first replicate the results of Kacperczyk and Seru (2007). Furthermore, the student should determine fund characteristics that are associated with higher reliance on analyst recommendations and, if possible, test whether this reliance changes over time.

**Requirements:**

The empirical work for this topic requires the use of statistical software (e.g. Stata), manipulation of data and the application of econometrics methods. Some experience in this area would be helpful. A dataset on U.S. equity mutual fund holdings will be provided.

**Introductory Literature:**

Jegadeesh, N.; Kim, J.; Krische, S.; Lee, C. (2004): Analyzing the Analysts: When Do Recommendations Add Value? *Journal of Finance*, 59, pp. 1083-1124.

Kacperczyk, M.; Seru, A. (2007): Fund Manager Use of Public Information: New Evidence on Managerial Skills. *Journal of Finance*, 62, pp. 485-528.

**Topic R3: Analyst Recommendations, Mutual Fund Herding and Stock Returns**

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**Classification:** Empirical topic

**Advisor:** Pavel Lesnevski

The study by Kacperczyk and Seru (2007) shows that managers whose trading is less sensitive to analyst recommendation outperform their peers. Brown, Wei, and Wermers (2013) consider how mutual fund trading in response to analyst revisions affects stock prices. Funds' simultaneous trading leads to herding in particular stocks. Such herding results in positive returns due to price pressure in the short run but in return reversal over the long-run. Moreover, the authors show that career concerned managers are more prone to such herding behavior.

The goal of the seminar thesis is to replicate the results of Brown, Wei, and Wermers (2013) using an alternative database of analyst recommendations (IBES database instead of Zacks).

**Requirements:**

The empirical work for this topic requires the use of statistical software (e.g. Stata), manipulation of data and the application of econometrics methods. Some experience in this area would be helpful. A dataset on U.S. equity mutual fund holdings will be provided.

**Introductory Literature:**

Brown, N.; Wei, K.; Wermers, R. (2013): Analyst Recommendations, Mutual Fund Herding, and Overreaction in Stock Prices, *Management Science*, 60, pp. 1-20.

Kacperczyk, M.; Seru, A. (2007): Fund Manager Use of Public Information: New Evidence on Managerial Skills, *Journal of Finance*, 62, pp. 485-528.

**Topic R4: Investor Attention and Economic Uncertainty**

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**Classification:** Empirical topic

**Advisor:** Anja Kunzmann

As research in economic psychology suggests, agents who face increased uncertainty intensify their search for information in order to dissolve this situation. There exists theoretical and empirical evidence in the finance literature that this behavior also applies to investors on stock markets. Based on these findings, Da, Engelberg and Gao (2010) and Dzielinski (2012) use a new approach to proxy for the uncertainty of investors about the economic state by looking at the Google search volume of economic terms. They confirm that increased economic uncertainty has an impact on stock markets.

The purpose of this seminar paper is to analyze the relationship between economic uncertainty and investor attention, and to motivate the use of Google search volume as a new proxy of investor uncertainty. In the empirical part of the paper, the student should replicate the results of Dzielinski (2012) and extend his analysis by including additional search terms and a longer time series of data.

**Requirements:**

The empirical work for this topic requires the use of statistical software (e.g. Stata), manipulation of data and the application of econometrics methods. Some experience in this area would be helpful.

**Introductory Literature:**

Dzielinski, M. (2012): Measuring economic uncertainty and its impact on the stock market, *Finance Research Letters*, 9, pp. 167-175.

Da, Z.; Engelberg, J.; Gao, P. (2014): The sum of all FEARS: investor sentiment and asset prices, *Review of Financial Studies*, forthcoming.

Da, Z.; Engelberg, J.; Gao, P. (2011): In search of attention, *Journal of Finance*, 66, pp. 1461-1499.

**Topic R5: Investor Attention and Index Performance**

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**Classification:** Empirical topic

**Advisor:** Anja Kunzmann

Despite appealing theoretical justification of the market efficiency hypothesis, substantial empirical evidence has been accumulated suggesting that the markets may not be efficient. It has been shown that investors' attention plays a role in explaining asset prices, returns, and the efficiency of security markets. Investors have a vast amount of information available when it comes to investment decisions. Since attention is a scarce cognitive resource, this inevitably limits their attention and investors have to be selective in information processing. Peng, Lin, and Wei Xiong (2006) indeed find that limited attention makes investors process more market-wide than firm-specific information. Vozlyublennaia (2014) builds on these results and investigates the effect of investor attention on index performance. As suggested by Da, Engelberg and Gao (2011), she uses Google search queries to measure investor attention.

The purpose of this seminar paper is to investigate the link between limited investor attention and its impact on the market. The student should briefly summarize the main findings from the relevant literature. In the empirical part, the student should replicate the results of Vozlyublennaia (2014) and extend them using a larger time series of Google search volume and data on index performance.

**Requirements:**

The empirical work for this topic requires the use of statistical software (e.g. Stata), manipulation of data and the application of econometrics methods. Some experience in this area would be helpful.

**Introductory Literature:**

Da, Z.; Engelberg, J.; Gao, P. (2011): In search of attention, *Journal of Finance*, 66, pp. 1461-1499.

Peng, L.; Xiong, W. (2006): Investor attention, overconfidence and category learning, *Journal of Financial Economics*, 80, pp. 563-602.

Vozlyublennaia, N. (2014): Investor attention, index performance, and return predictability, *Journal of Banking & Finance*, 41, pp. 17-35.

**Topic R6: Investor Attention and Earnings Announcements**

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**Classification:** Empirical topic

**Advisor:** Anja Kunzmann

Da, Engleberg, and Gao (2011) find that Google search volume is a good proxy for the effort of uninformed investors' attempt to gain information. Based on these insights, Drake, Roulstone, and Thornock (2012) analyze the timing and drivers of investors' demand for information around earnings announcements. They provide evidence that increased Google search volume in the pre-announcement period attenuates the market's response when earnings are ultimately announced. They argue that these searches are successful in reducing information asymmetries and thus increase market efficiency. Building on these findings, Fricke, Fung and Goktan (2014) show that the post earnings announcement drift, i.e. the tendency of a stock's cumulative abnormal returns to drift in the direction of an earnings surprise for some time after the earnings announcement, is reduced as well.

The purpose of this seminar paper is to examine investors' demand for information around firm news (in particular for earnings announcements) and motivate the use of Google search volume as a proxy for this demand. For the empirical part, the student should replicate the analysis of Fricke, Fung and Goktan and extend it to a larger time series of data.

**Requirements:**

The empirical work for this topic requires the use of statistical software (e.g. Stata), manipulation of data and the application of econometrics methods. Some experience in this area would be helpful.

**Introductory Literature:**

Fricke, E.; Fung, S.; Goktan, M. (2014): Google Search, Information Uncertainty, and Post-Earnings Announcement Drift, *Journal of Accounting and Finance*, 14, pp. 11.

Da, Z.; Engelberg, J.; Gao, P. (2011): In search of attention, *Journal of Finance*, 66, pp. 1461-1499.

Drake, M.; Roulstone, D.; Thornock, J. (2012): Investor information demand: Evidence from Google searches around earnings announcements, *Journal of Accounting Research*, 50, pp. 1001-1040.

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**Topic R7: Investor Attention and the Cross-Section of Stock Returns**

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**Classification:** Empirical topic

**Advisor:** Michael Ungeheuer

Attention is a scarce resource (Kahneman, 1973). It is particularly likely to impact retail investors' buy/sell decisions, since their attention is not focused on asset markets as part of their job. Barber and Odean (2008) predict that increased retail investor attention should lead to price increases: Due to short selling restrictions, these investors are more likely to buy stocks that catch their attention than sell them. Da, Engelberg and Gao (2011) introduce a direct proxy for investor attention: google search volume for firms' ticker symbols (e.g. "AAPL" for Apple Inc.). Previously, more indirect measures for investor attention, such as turnover, the volatility of returns or the number of newspaper articles about a firm, had been used (e.g. by Barber and Odean, 2008). Da et al. show that increases in these indirect measures for investor attention are correlated with increases in the google search volume index (SVI). They then go on to measure the impact of SVI-increases on future stock returns. Their findings support Barber and Odean's (2008) hypothesis: Attention temporarily drives up stock prices.

The goal for this seminar paper is to analyze the relationship between investor attention – measured by google search volume – and stock returns. As a part of this analysis, Barber and Odean's (2008) results for the time period 2004-2008 should be replicated and then extended up to 2013.

**Requirements:**

The empirical work for this topic requires the use of statistical software (e.g. Stata), manipulation of data and the application of econometrics methods. Some experience in this area would be helpful.

**Introductory Literature:**

Barber, B.; Odean, T. (2008): All That Glitters: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors, *Review of Financial Studies*, 21, pp. 785-818.

Da, Z.; Engelberg, J.; Gao, P. (2011): In Search of Attention, *Journal of Finance*, 66, pp. 1461-1499.

Kahneman, D. (1973): Attention and Effort, Prentice-Hall, Englewood Cliffs, NJ.

**Topic R8: Driven to Distraction?**

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**Classification:** Empirical topic

**Advisor:** Michael Ungeheuer

Hirshleifer et al. (2009) hypothesize that investors underreact to new information if they are distracted by having to simultaneously process large amounts of other information. They analyze this hypothesis in the context of earnings announcements. Particularly, they relate price and volume of a given firm around earnings announcements to the number of same-day earnings announcements made by other firms. When many firms announce earnings on the same day, they find that prices and volume react less to an announcement. The post-announcement drift in prices (up if the earnings surprise was positive, down if it was negative) is stronger for these distraction-prone announcements. All these findings are evidence in support of the initial hypothesis: investors underreact to new information if distracted.

The goal for this seminar paper is to first replicate the analysis of Hirshleifer et al. (2009) and to extend it up to 2013. Additionally – similar to Drake et al. (2012) – the reaction of google search volume to earnings announcements should be analyzed in order to further test the theory of Hirshleifer et al.: Does google search volume react less to an announcement if many other firms announce their earnings at the same time?

**Requirements:**

The empirical work for this topic requires the use of statistical software (e.g. Stata), manipulation of data and the application of econometrics methods. Some experience in this area would be helpful.

**Introductory Literature:**

Da, Z.; Engelberg, J.; Gao, P. (2011): In Search of Attention, *Journal of Finance*, 66, pp. 1461-1499.

Kahneman, D. (1973): Attention and Effort, Prentice-Hall, Englewood Cliffs, NJ.

Hirshleifer, D.; Lim, S.; Teoh, S. (2009): Driven to Distraction: Extraneous Events and Underreaction to Earnings News, *Journal of Finance*, 65, pp. 2289-2325.

Drake, M.; Roulstone, D.; Thornock, J. (2012): Investor Information Demand: Evidence from Google Searches Around Earnings Announcements, *Journal of Accounting Research*, 4, pp. 1001-1040.

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**Topic R9: Product Market Advertising and Investor Attention**

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**Classification:** Empirical topic

**Advisor:** Michael Ungeheuer

The impact of firms' product market advertising on financial markets has been analyzed by several studies. Grullon et al. (2004) find that firms that advertise more tend to have a higher number of retail investors and more liquid stocks. Lou (2014) finds an impact of advertising on stock returns: higher advertising is associated with an increase in prices during the same year, followed by a reversal of these returns in the next years. An important assumption in these studies is that product market advertising increases retail investor attention. Madsen and Niessner (2014) test this by relating firms' advertising to google search volume for their ticker symbols (e.g. "AAPL" for Apple Inc.).

The goal for this seminar paper is to test the effects of product market advertising on google search volume. In addition to the direct effect of a firm's advertising on its own stock's investor attention, indirect effects on peers of the firm (competitors) should be analyzed.

**Requirements:**

The empirical work for this topic requires the use of statistical software (e.g. Stata), manipulation of data and the application of econometrics methods. Some experience in this area would be helpful. A dataset with advertising data on the firm-week level will be provided.

**Introductory Literature:**

Lou, D. (2014): Attracting Investor Attention through Advertising, *Review of Financial Studies*, 27, pp. 1797-2829.

Grullon, G.; Kanatas, G.; Weston, J. (2004): Advertising, Breadth of Ownership, and Liquidity, *Review of Financial Studies*, 17, pp. 439-461.

Madsen, J.; Niessner, M. (2014): Is Investor Attention for Sale? The Role of Advertising in Financial Markets, Working Paper.