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Seminar HWS 2014: "Advertising and Financial Markets"

Topic R1: **Advertising and Stock Returns**
Advisor: Alexander Hillert

Topic R2: **Advertising, SEOs and Debt Issues**
Advisor: Alexander Hillert

Topic R3: **Advertising and M&A Activity**
Advisor: Alexander Hillert

Topic R4: **Advertising and Insider Trading**
Advisor: Florens Focke

Topic R5: **Advertising, Investor Recognition, and Stock Returns**
Advisor: Florens Focke

Topic R6: **Advertising and Stock Liquidity**
Advisor: Florens Focke

Topic R7: **Advertising and Investor Recognition: The Case of IPOs**
Advisor: Paris Tsotsonos

Topic R8: **Advertising and Media Coverage in the pre-IPO Market**
Advisor: Paris Tsotsonos

Topic R1: Advertising and Stock Returns

Classification: Empirical topic
Advisor: Alexander Hillert

Lou (2014) finds that yearly product advertising expenditures are positively related with contemporaneous stock returns. In the two years after the advertising year this effect is reversed and there are negative abnormal stock returns. He interprets this finding as a temporal overvaluation caused by attention driven purchases from (retail) investors.
The aim of this seminar thesis is to replicate the findings by Lou (2014) and to repeat the analysis with a different advertising dataset which is available on a higher frequency (e.g. monthly or even daily).

Introductory Literature:

Barber, B.M., and T. Odean (2008), All That Glitters: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors, The Review of Financial Studies, 21 (2), 785-818.

Lou, D. (2014), Attracting Investor Attention through Advertising, The Review of Financial Studies, 27 (6), 1797-1829.

Topic R2: Advertising, SEOs and Debt Issues

Classification: Empirical topic
Advisor: Alexander Hillert

Having shown that advertising leads to a temporal increase in stock prices, Lou (2014) argues that firms increase advertising prior to SEOs to issue overvalued equity. However, one could also argue that firms conduct SEOs to finance investment projects (e.g. an advertising campaign). Since Lou (2014) uses only annual advertising data, the paper is not able to convincingly distinguish between the two explanations.
The aim of this seminar thesis is to replicate the SEOs analysis by Lou (2014) and to analyze the timing of SEOs and advertising in more detail using high frequency advertising data (e.g. monthly frequency). Furthermore, the student should test whether there are similar advertising patterns around the issue of convertibles and/or bonds.

Introductory Literature:

Chemmanur, T., and A. Yan (2009), Product market advertising and new equity issues, Journal of Financial Economics, 92, 40-65.

Lou, D. (2014), Attracting Investor Attention through Advertising, The Review of Financial Studies, 27 (6), 1797-1829.

Topic R3: Advertising and M&A Activity

Classification: Empirical topic
Advisor: Alexander Hillert

Having shown that advertising leads to a temporal increase in stock prices, Lou (2014) argues that firms increase advertising prior to stock-financed M&As to increase the value of their shares as M&A currency. For cash-financed mergers, there is no relation with advertising. Since Lou (2014) uses only annual advertising data, the paper cannot rule out alternative explanations, e.g. that advertising happens after the acquisition.
The aim of this seminar thesis is to replicate the M&A analysis by Lou (2014) and to analyze the timing of M&A activity and advertising in more detail using high frequency advertising data (e.g. monthly frequency). Furthermore, the student should test whether advertising can also be used by potential target firms as a takeover defense mechanism.

Introductory Literature:
Lou, D. (2014), Attracting Investor Attention through Advertising, The Review of Financial Studies, 27 (6), 1797-1829.

Topic R4: Advertising and Insider Trading

Classification: Empirical topic
Advisor: Florens Focke

Prior research suggests that retail investors in particular are prone to engage in attention-induced trading (e.g., Barber and Odean 2008). The primary purpose of advertising is the promotion of sales of the company's products (Bagwell 2007). One part of this is the attraction of attention to those products, which might also entail greater awareness of the company itself. This increase in attention for the company's stock could lead to a temporary increase in the stock price. Hence, companies might use advertising to strategically influence their stock price. In particular, companies could attempt to increase their stock price before corporate events that benefit from higher valuations such as insider sales. In this study, the student should provide a brief overview of the literature on investor attention, recognition and its link to advertising. In the empirical part, the study should build on the work by Lou (forthcoming) and analyze whether managers make use of advertising to influence stock prices around insider sales. Specifically, it should be investigated whether advertising is higher around insider sales and whether this effect differs between insiders of different corporate levels. A dataset of insider sales will be provided and will need to be linked with data from CRSP/Compustat (access provided). In a final step, the analysis should be repeated high frequency advertising data (e.g. monthly frequency). Access will be provided.

Introductory Literature:
Bagwell, Kyle, 2007, The economic analysis of advertising, in Kyle Bagwell ed.: Handbook of industrial organization (Edward Elgar Press, Cheltenham, UK).

Barber, B. M., and T. Odean, 2008, All That Glitters: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors, Review of Financial Studies 21, 785–818.

Lou, D. ,2014, Attracting Investor Attention through Advertising, Review of Financial Studies, 27 (6), 1797-1829.

Chemmanur, Thomas, and An Yan, 2009, Product market advertising and new equity issues, Journal of Financial Economics 92, 40–65.

Merton, Robert C. Richard C., 1987, A simple model of capital market equilibrium with incomplete information, Journal of Finance 42, 483–510.

Topic R5: Advertising, Investor Recognition, and Stock Returns

Classification: Empirical topic
Advisor: Florens Focke

Merton's (1987) theory of capital markets under incomplete information suggests that a stock's return depends on the degree to which it is recognized. Chemmanur and Yan (2011) argue that product market advertising can have a spillover effect on capital markets through this channel. They find that contemporaneous returns increase in advertising growth, but that future returns are lower, consistent with the theory. The purpose of this seminar paper is to provide a brief survey of the literature on the relationship between investor attention, investor recognition and stock returns. Building on this, the study should build on the work of Chemmanur and Yan (2011) and investigate the link between investor recognition and stock returns. Specifically, it should be analyzed whether the effect of advertising on stock returns depends on firm characteristics such as turnover, analyst coverage, idiosyncratic risk and others. A dataset of analyst coverage will be provided and will need to be linked with CRSP/Compustat (access provided). In a final step, the analysis should be repeated high frequency advertising data (e.g. monthly frequency). Access will be provided.

Introductory Literature:

Bagwell, Kyle, 2007, The economic analysis of advertising, in Kyle Bagwell ed.: Handbook of industrial organization (Edward Elgar Press, Cheltenham, UK).

Chemmanur, Thomas; Yan, An (2011): „Advertising, Investor Recognition, and Stock Returns“. Working Paper.

Lou, D. ,2014, Attracting Investor Attention through Advertising, Review of Financial Studies, 27 (6), 1797-1829.

Merton, Robert C. Richard C., 1987, A simple model of capital market equilibrium with incomplete information, Journal of Finance 42, 483–510.

Topic R6: Advertising and Stock Liquidity

Classification: Empirical topic
Advisor: Florens Focke

Prior research suggests that retail investors in particular are prone to engage in attention-induced trading (e.g., Barber and Odean 2008). The primary purpose of advertising is the promotion of sales of the company's products (Bagwell 2007). One part of this is the attraction of attention to those products, which might also entail greater awareness of the company itself. As Merton (1987) points out, knowing about a security is the first prerequisite for investing in it. Increased awareness might then increase especially retail investor interest in the company's stock. In this study, the student should provide a brief overview of the literature on investor attention, recognition and its link to advertising. In the empirical part, the study should build on the work by Grullon et al. (2004) and analyze whether advertising is associated with stock liquidity. Specifically, it should be investigated whether advertising is associated with an increase in the number of a firm's shareholders, its turnover and potentially other measures of its liquidity. The number of shareholders, turnover and other necessary variables can be obtained via CRSP/Compustat (access provided). In a final step, the analysis should be repeated high frequency advertising data (e.g. monthly frequency). Access will be provided.

Introductory Literature:

Bagwell, Kyle, 2007, The economic analysis of advertising, in Kyle Bagwell ed.: Handbook of industrial organization (Edward Elgar Press, Cheltenham, UK).

Barber, B. M., and T. Odean, 2008, All That Glitters: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors, Review of Financial Studies 21, 785–818.

Grullon, Gustavo, George Kanatas, and James P. Weston, 2004, Advertising, Breadth of Ownership, and Liquidity, Review of Financial Studies 17, 439–461.

Lou, D. ,2014, Attracting Investor Attention through Advertising, Review of Financial Studies, 27 (6), 1797-1829.

Merton, Robert C. Richard C., 1987, A simple model of capital market equilibrium with incomplete information, Journal of Finance 42, 483–510.

Topic R7: Advertising and Investor Recognition: The Case of IPOs

Classification: Empirical topic
Advisor: Paris Tsotsonos

Chemmanur and Yan (2010) show that product market advertising attracts investor recognition in a Merton (JF, 1987) sense. They find that an increase in advertising leads to upward pressure on stock returns in the contemporaneous year, and a subsequent reversal.
The aim of this seminar thesis is to empirically investigate whether pre-IPO product market advertising affects long-term measures of investor recognition, e.g. the number of analysts following an IPO firm, and to examine whether the results of Chemmanur and Yan (2010) hold for IPO returns.

Introductory Literature:
Chemmanur, T. and A. Yan (2010). Advertising, Investor Recognition, and Stock Returns. Working Paper.

Merton, R. C. (1987). A Simple Model of Capital Market Equilibrium with Incomplete Information. Journal of Finance 42 (3), 483-510.

Liu, L. X., A. E. Sherman, and Y. Zhang (2014). The Long-Run Role of the Media: Evidence from Initial Public Offerings. Management Science, Online article.

Topic R8: Advertising and Media Coverage in the pre-IPO Market

Classification: Empirical topic
Advisor: Paris Tsotsonos

Gurun and Butler (JF, 2012) show that a firms' local media advertising expenditures affects the language, in terms of negative, pessimistic tone, used in local media reporting about the firm. They find that greater advertising leads to more positive media tone, and vice versa.
The aim of this seminar thesis is to replicate the findings of Gurun and Butler (JF, 2012) for pre-IPO advertising and media coverage.

Introductory Literature:
Gurun, U.G. and A.W. Butler (2012). Don't Believe the Hype: Local Media Slant, Local Advertising, and Firm Value. Journal of Finance 67(2), 561-597.

Loughran, T. and B. McDonald (2011). When Is a Liability Not a Liability? Textual Analysis, Dictionaries, and 10-Ks. Journal of Finance 66 (1), 35-65.