Media Coverage and Stock Returns in Austria

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Executive Summary

The effect of genuine news on stocks has been well researched in the past. But the effect of media coverage, which can also include old news, has only received more attention over the last decade as better databases have become available. This study examines the relation between the amount of monthly media coverage and monthly stock returns for Austrian stocks in the time period of January 1999 to December 2009.

Media coverage is measured by the amount of monthly news articles in four Austrian newspapers where a company is mentioned. The data are gathered from Austrian newspapers Die Presse, Der Standard, Wirtschaftsblatt and Salzburger Nachrichten. 121 Austrian stocks are included in this study. Mostly small and illiquid stocks for which data were not available in Datastream had to be excluded.

A statistical model is built that controls for size, volume and price-to-book ratio factors. The data take the form of unbalanced panel data which requires some adjustments. An unobserved effects model with fixed effects is employed. The panel data regression also controls for time and size effects.

Three different models are tested. The first is a general unobserved effects model. The second one lets the media coverage data lag by one month. The third one eliminates all data points where no newspaper articles about a company were written.

The size and price-to-book ratio factors are statistically significant in all models. Trading volume is statistically significant in the first two models. These three factors help explain monthly stock returns. This result is consistent with past research.

But media coverage does not help explain stock returns in any model. This leads to the conclusion that monthly media coverage did not have an effect on monthly stock returns in Austria in the period of January 1999 to December 2009. This result is not consistent with recent research about media coverage and stock returns.

A possible explanation is that excluding small and illiquid stocks, for which the media coverage effect is usually strongest, could have weakened the results. A second possible explanation lies in the relation between media coverage and size. Larger companies tend to have more media coverage.