Media Coverage and Stock Returns in Hong Kong

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by

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Abstract

In this paper, I explore the impact of media coverage on cross-sectional expected stock returns in the context of the Hong Kong stock market. The hypothesis is that in a relatively peaceful economic period the expected cross-sectional stock returns are negatively affected by the extent of media coverage, even after controlling for existing risk characteristics of a firm, which is equivalently named media effect as in some previous studies (e.g. Fang and Peress, 2007). The underlying notion is that the stock market is subject to “information incompleteness” (Merton, 1987) and “information asymmetry” (Easley and O’Hara, 2004). In separate regression models, I examine the contemporaneous media effect and the lagged media effect. The empirical results of the panel data regression analysis support the former: When no interactions between media coverage and control variables are considered, the estimated coefficient of media coverage is statistically not significant; but when some certain interactions are taken into account, such as the ones between media coverage and liquidity and between media coverage and volatility of stock returns respectively, the overall estimated coefficients of media coverage are significantly negative and economically large. More importantly, I find that these interactions are also statistically significant and have essential meaning in affecting expected stock returns. As for the lagged media effect, I cannot find significant evidence by applying the same regression analysis to the sample data.