

The Business Press and Narrative Setting in Financial Markets

Rick Cazier, PhD

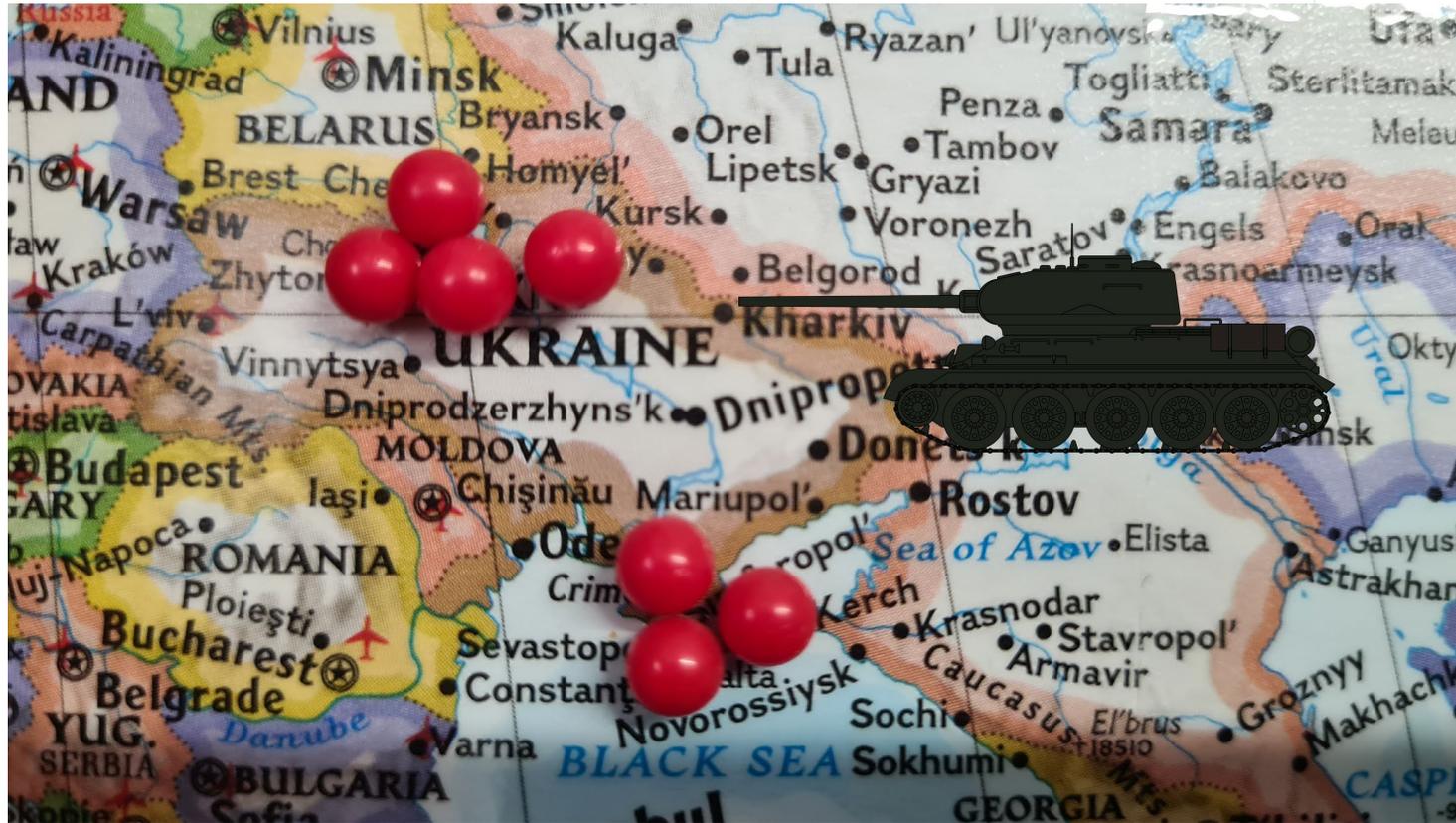
G. Brint Ryan College of Business
The University of North Texas



Introduction

- Agenda
 - Media Narratives
 - Identifying slanted media narratives
 - How media narratives affect financial markets
- Personal Background
 - B.S., MS., Brigham Young University
 - PhD University of Iowa
 - Taught at Iowa, TCU, Michigan, UTEP, UNT

Did You Know?



Russia
Invaded
Ukraine
February
24, 2022

News about National & Worldwide Events

Will Smith slaps
Chris Rock at the
Oscars

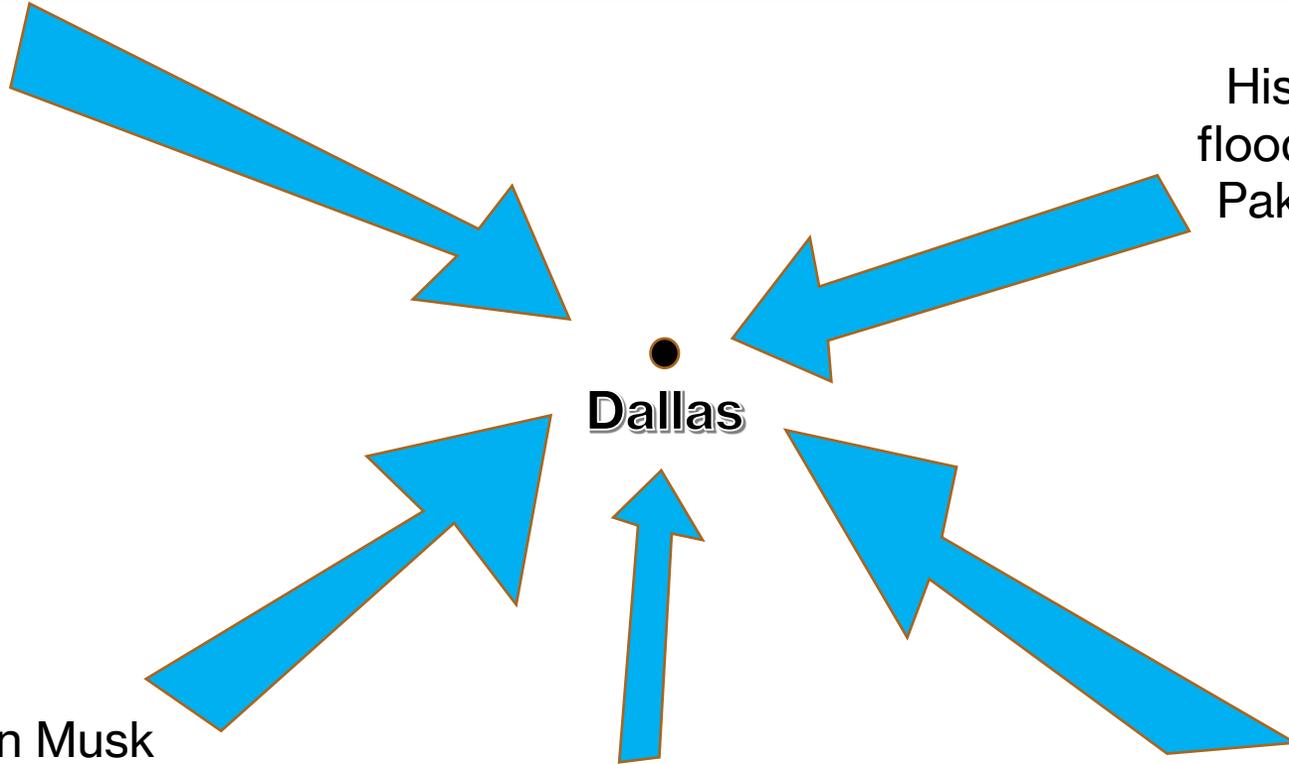
Historic
flooding in
Pakistan

Dallas

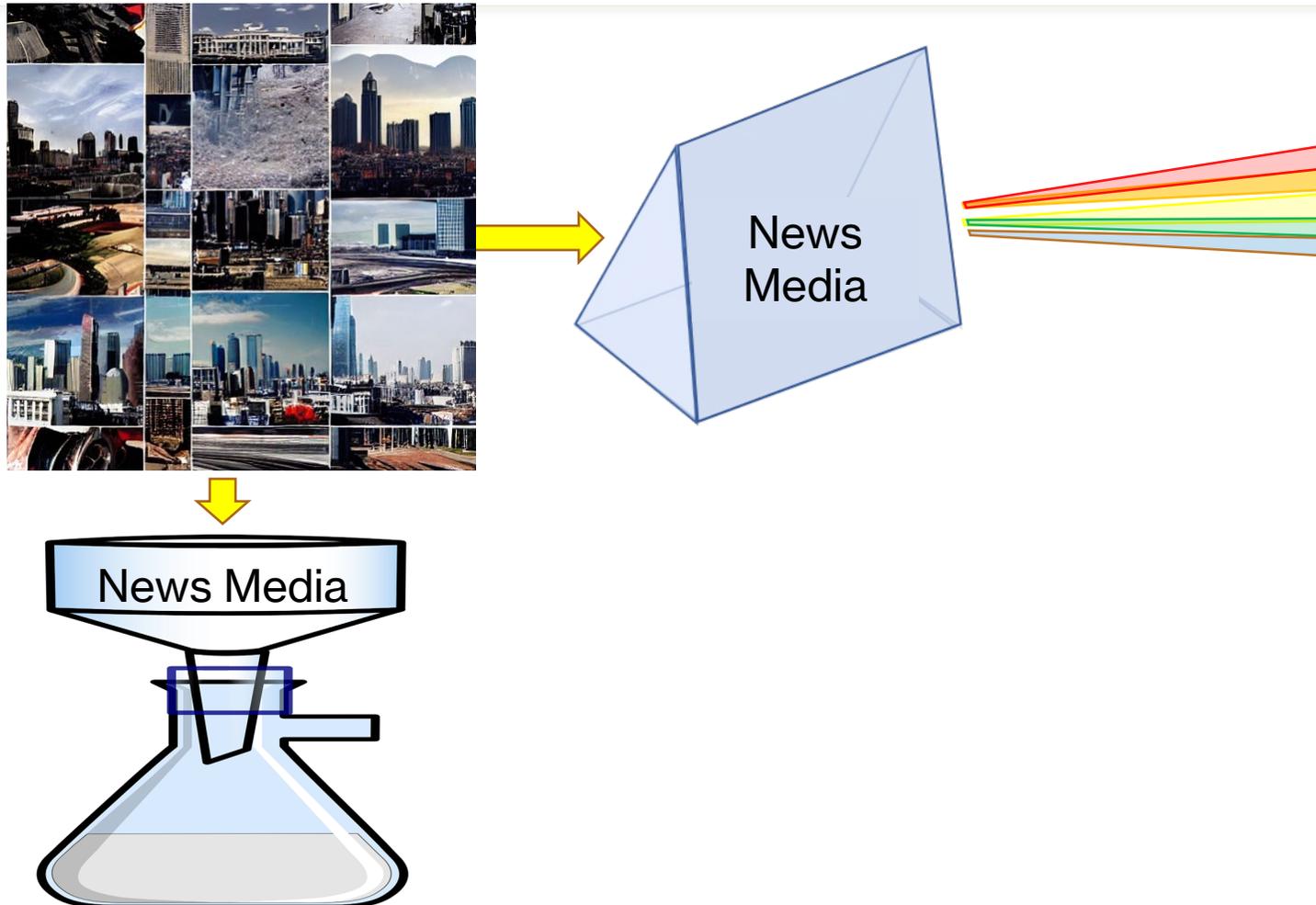
Elon Musk
buys Twitter

Hurricane Ian
batters Florida

FBI seizes top-secret
documents from Mar-a-
Lago



Is the Media a Filter or a Prism?



What Creates Media Tone

- Choice of words used to describe the event
 - “Seasoned superstar” vs. “Aging veteran”
- Which perspectives are included
 - “This acquisition immediately makes the Mavericks playoff contenders,’ **claims Coach Jason Kidd.**”
- The credibility given to various sources
 - “But Kidd’s recent history of failed superstar acquisitions **raises serious doubts about this claim.**”

What Creates Media Tone

- Unsubstantiated claims
 - “The acquisition of LeBron James *guarantees* the Mavericks will win the Western Conference finals in the upcoming season.”
- Opinions presented as facts
 - “Lebron James *is* the greatest basketball player of all time.”
- Mind reading
 - “Coach Jason Kidd *thought* he could wow fans and silence critics with his recent acquisition of LeBron James.”

What Creates Media Tone

- Photo Bias



Inspiring Little Fear in Senators, Trump Struggles to Sell Health Bill

WASHINGTON – President Trump thought he could sell balky Republican senators like Ron Johnson of Wisconsin on the Senate health care bill through pleasantries, cajoling and, ultimately, some Oval Office muscle....

Fear is perhaps the most powerful motivating force in politics, and fear of a powerful president is the surest lever to move a lawmaker from a “no” to a “yes” on a presidential priority. But over the past month, Mr. Trump scared no one into supporting the bill to repeal and replace the Affordable Care Act. He has proved simply too unpopular nationally – polling at 36 to 40 percent approval this week – too weak in many senators’ home states, too erratic and too disengaged from the details of governing to harness his party, as other new presidents have.

The starkest demonstration of Mr. Trump’s weakness came on Monday when Mr. McConnell and his stunned team learned that Jerry Moran, a typically reliable conservative from Kansas, felt safe stiff-arming Mr. Trump on his top legislative priority, announcing that he opposed the bill.

How Would You Rate the Tone of This Article?

Survey Question 1



Scan this QR code and rate the tone of this article from 1 (very negative) to 10 (very positive).

Inspiring Little Fear in Senators, Trump Struggles to Sell Health Bill

WASHINGTON – President Trump **thought he could** sell **balky** Republican senators like Ron Johnson of Wisconsin on the Senate health care bill through pleasantries, cajoling and, ultimately, some **Oval Office muscle**....

Fear is perhaps the most powerful motivating force in politics, and fear of a powerful president is the surest lever to move a lawmaker from a “no” to a “yes” on a presidential priority. But over the past month, Mr. Trump **scared no one** into supporting the bill to repeal and replace the Affordable Care Act. He has proved simply **too unpopular** nationally – polling at 36 to 40 percent approval this week – **too weak** in many senators’ home states, **too erratic** and **too disengaged** from the details of governing to harness his party, as other new presidents have.

The **starkest** demonstration of Mr. Trump’s **weakness** came on Monday when Mr. McConnell and his **stunned** team learned that Jerry Moran, a typically reliable conservative from Kansas, **felt safe stiff-arming** Mr. Trump on his top legislative priority, announcing that he opposed the bill.

Inspiring Little Fear in Senators, Trump Struggles to Sell Health Bill

“WASHINGTON – President Trump **thought he could** sell **balky** Republican senators like Ron Johnson of Wisconsin on the Senate health care bill through pleasantries, cajoling and, ultimately, some **Oval Office muscle....**

Fear is perhaps the most powerful motivating force in politics, and fear of a powerful president is the surest lever to move a lawmaker from a “no” to a “yes” on a presidential priority. But over the past month, Mr. Trump **scared no one** into supporting the bill to repeal and replace the Affordable Care Act. He has proved simply **too unpopular** nationally – polling at 36 to 40 percent approval this week – **too weak** in many senators’ home states, **too erratic** and **too disengaged** from the details of governing to harness his party, as other new presidents have.

The **starkest** demonstration of Mr. Trump’s **weakness** came on Monday when Mr. McConnell and his **stunned** team learned that Jerry Moran, a typically reliable conservative from Kansas, **felt safe stiff-arming** Mr. Trump on his top legislative priority, announcing that he opposed the bill.”

- THE NEW YORK TIMES, JULY 20, 2017



What Gives Rise to Media Slant?

- Political ideology
- Efforts to please advertisers
- Negativity bias
- Sensationalism

Which Headline Would You Click On?

"Congress Faces Decision on Raising the Debt Limit for Fiscal Responsibility"

OR

"Financial Doomsday Looms: Congress Must Act Now to Prevent Economic Collapse!"

Media Narratives and Financial Markets

- Two different media outlets reporting on the same earnings announcement from DreamWorks
 - **(A) DreamWorks Results Beat Estimates on Success of “The Croods”:** DreamWorks Animation SKG Inc reported better-than-expected quarterly results, riding on the worldwide success of its animation film, “The Croods.”
 - **(B) DreamWorks 1st-Quarter Net Falls 39% on Costs; Shares Up:** DreamWorks Animation SKG Inc. (DWA) first-quarter profit fell 39% as the computer-animation studio's overhead costs grew and revenue edged lower.

Which article do you expect came from Fox News?



Media Coverage of Earnings Announcements

- Two outlets reporting on DreamWorks' earnings announcement:
 - (A) **DreamWorks Results Beat Estimates on Success of "The Croods"**: DreamWorks Animation SKG Inc reported better-than-expected quarterly results, riding on the worldwide success of its animation film, "The Croods."
 - (B) **DreamWorks 1st-Quarter Net Falls 39% on Costs; Shares Up**: DreamWorks Animation SKG Inc. (DWA) first-quarter profit fell 39% as the computer-animation studio's overhead costs grew and revenue edged lower.



Research Evidence on Political Bias and Earnings Coverage

- Rees and Twedt (2022): Do media outlets slant coverage of earnings announcements of companies with the opposite political leaning?
- 316 Republican-leaning companies; 174 Democratic-leaning companies

AllSides Media Bias Chart



L LEFT
 L LEAN LEFT
 C CENTER
 R LEAN RIGHT
 R RIGHT



Rees and Twedt (2022) findings

- News outlets tend to negatively slant coverage of earnings announcements from companies with opposing political ideologies
- Does this matter?

Media Narratives and Investor Judgments

- Read the colored news article on your table and answer the two questions below the article.



SnackWave, Inc. -> Answer questions (1) and (2)

YumHub, Inc. -> Answer questions (3) and (4)

Both Articles Based on Same Set of Facts

(RTTNews) - Inventure Foods Inc. (SNAK:Quote) Thursday reported an increase in profit for the second quarter, driven mainly by a double-digit growth in revenues.

The Phoenix, Arizona-based company's second-quarter net profit was **\$1.62 million** or **\$0.08 per share**, compared to **\$859 thousand** or **\$0.05 per share** last year. On average, four analysts polled by Thomson Reuters expected the company to earn **\$0.08 per share** for the quarter. Analysts' estimates typically exclude special items.

Total revenues for the quarter grew **10.1 percent** to **\$48.02 million** from **\$43.61 million** in the prior-year quarter. Four analysts had a consensus revenue estimate of **\$48.49 million** for the quarter.

Narratives Interpret Facts

Different Narratives around Identical Underlying Performance

YumHub, Inc.

- Lackluster performance
- Moderate surge in revenues
- Did not beat projections
- Disappointing outcome
- Moderate growth
- Inability to surpass expectations

SnackWave, Inc.

- Consistent performance
- Double-digit growth in revenues
- Successfully met expectations
- Remarkable profit increase
- Significant growth
- Surge in profits

Media Tone and Stock Prices

- Second finding from Rees and Twedt (2022): Coverage from politically opposed news outlets leads to worse stock price reactions and slower price discovery
- Positive media slant is associated with higher stock prices (Gurun and Butler 2012)
- Sensationalized media is associated with stock price overreactions to merger announcements (Ahern and Sosyura 2015)

How do Investors Process Earnings Information?

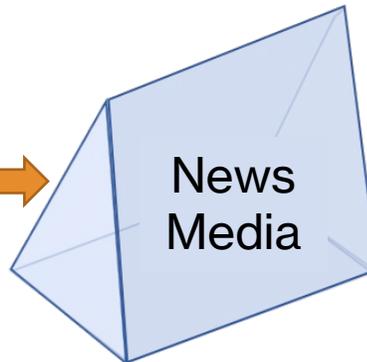
Corporate Earnings reports



Investors



Corporate Earnings reports



Investors



Media Narratives and Shareholder Litigation

- 6,000 federal securities class action lawsuits since 1996
- “Plaintiff has alleged the following based upon SEC filings, regulatory filings and reports, securities analysts reports about the Company, and press releases and media reports about the Company.”

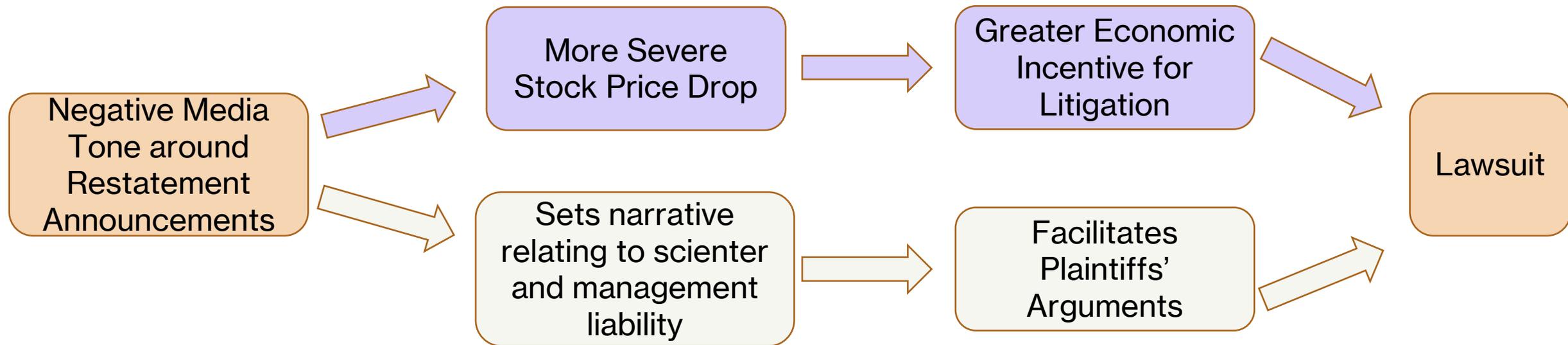
Media Narratives and Shareholder Litigation

Investor Perception of Accounting Restatements



Are media narratives enough to move the needle?

Negative Media Tone And Shareholder Litigation



Media Tone and Shareholder Litigation

- Based on 2,356 accounting restatements announced between 2000 and 2020
- Negative media tone around restatement announcements
 - increases the severity of the stock price drop at the announcement date
 - Predicts a greater likelihood of a lawsuit even after controlling for the stock price drop

Media Narratives Directly Quoted in Shareholder Lawsuits



Media Narratives Directly Quoted in Shareholder Lawsuits

- Private Securities Litigation Reform Act says plaintiffs must “state with particularity all **facts**” on which their allegations are based.
- Are media quotes contained in lawsuits...
 - Facts?
 - Or subjective statements (i.e. *narrative*)?

Actual Media Quotes Cited in Plaintiffs' Securities Lawsuit Filings

- From a 2010 Barron's article: "Diagnosis: Unhealthy Accounting:
- "Athenahealth, a widely admired data outfit, has just owned up to some dubious bookkeeping. Analysts shrug it off; you shouldn't."
- "The analytic community is so mesmerized by the story that it doesn't care about the company's credibility lapse. We would submit that investors should."

Actual Media Quotes Cited in Plaintiffs' Securities Lawsuit Filings

- “The wildly unprofitable streamer (Fubo TV) tries to put lipstick on a pig with a creative metric.” – *Motley Fool* 2/17/2021
- “A Very Fishy Smell Coming Out of Big Lots” – *Forbes* (7/9/2012)
- “Yelp’s Practices Sound to Some Like Extortion. Yelp just can’t stop living the thug life.” – *LA Times* (4/13/2014)
- “Apple CEO Tim Cook and his management team should read the coverage of their mind-blowing warning to every investor on the planet on Apple News and then ask: ‘Should investors trust us right now?’” – *Yahoo* (1/3/2019)

Actual Media Quotes Cited in Plaintiffs' Securities Lawsuit Filings

- “[Drug company CEOs] walk out of FDA meetings believing what they want to hear – and blab happily to investors – instead of waiting for definitive decisions.” - *TheStreet* (10/7/2015)
- “TG Therapeutics has long suffered from a management credibility problem.” - *TheStreet* (10/13/2016)
- “Rats leaving a sinking ship. That unfortunate metaphor sprang to mind last Thursday when a pack of formerly bullish stock analysts suddenly cooled on the shares of Amazon.com.” – *The New York Times* (8/1/2001)

Lawsuits Citing Media Quotes of 3rd Parties

- “I’m less than enthusiastic.... I didn’t get the sense that management’s got a real solid grip on what they’ve got to do to get things rolling again.” – *St. Paul Pioneer Press* article (7/31/2002) citing an analyst regarding Xcel’s stock performance
- “This is like leaning two drunks against each other to get them to stand up straight” – *LA Times* article (9/5/01) citing a venture capitalist’s perspective on the merger between Compaq Computer and Hewlett Packard

From Meta's April 26, 2023 Press Release:

- **Facebook monthly active users (MAUs)** – MAUs were 2.99 billion as of March 31, 2023, an increase of 2% year-over-year.
- **Revenue** – Revenue was \$28.65 billion, an increase of 3% year-over-year, and an increase of 6% year-over-year on a constant currency basis.
- **Costs and expenses** – Total costs and expenses were \$21.42 billion, an increase of 10% year-over-year. This includes charges related to our restructuring efforts of \$1.14 billion in the first quarter of 2023.
- **Headcount** – Headcount was 77,114 as of March 31, 2023, a decrease of 1% year-over-year. Substantially all employees impacted by the layoff announced in November 2022 are no longer reflected in our reported headcount as of March 31, 2023. Further, the employees that would be impacted by the 2023 layoffs are included in our reported headcount as of March 31, 2023.

Use what you've learned about Media slant to generate **positive** or **negative** news headlines based on the information above:

- ❖ Word choice
- ❖ The perspectives included and omitted
- ❖ The credibility given to various sources
- ❖ Whether or not to report on an event
- ❖ Unsubstantiated claims

- ❖ Opinions presented as facts
- ❖ Flawed logic
- ❖ Mind reading
- ❖ Photo bias



Possible solutions – Artificial Intelligence?

(RTTNews) - Inventure Foods Inc. (SNAK:Quote) Thursday reported an increase in profit for the second quarter, driven mainly by a double-digit growth in revenues.

The Phoenix, Arizona-based company's second-quarter net profit was \$1.62 million or \$0.08 per share, compared to \$859 thousand or \$0.05 per share last year. On average, four analysts polled by Thomson Reuters expected the company to earn \$0.08 per share for the quarter. Analysts' estimates typically exclude special items.

Total revenues for the quarter grew 10.1 percent to \$48.02 million from \$43.61 million in the prior-year quarter. Four analysts had a consensus revenue estimate of \$48.49 million for the quarter.



Possible solutions--Social Media?

- Tweets can link the investing public directly to corporate financial disclosures
- Tweeting out corporate performance also increases the likelihood the media picks up on the story



Possible solutions – Stop Reading Biased News?

- Throwing out the baby with the bath water?



Best solution

- Be a sophisticated consumer of news
 - Consider the news outlet – what are their reporting incentives?
 - Consider the news article – can you identify what is objective fact, what is objective interpretation, and what is slant?



Three Key Takeaways

- Media narratives influence investors' perception
- Media slant affects financial markets
- Learning to recognize media slant can help you make better decisions



Discussion Time

Questions and comments?