Rumortrage: Can Investors Profit on Takeover Rumors on Internet Stock Message Boards?

Jenni Bettmana, Aiden Hallettb, Stephen Saulta*

a School of Finance, Actuarial Studies and Applied Statistics, Research School of Business, Australian National University, Canberra, ACT, 2000, Australia
b Goldman Sachs, Sydney, NSW, 2000, Australia

Abstract

We provide the first empirical investigation into the impact of Internet Stock Message Board takeover rumors on the price discovery process in the United States equity market. Our investigation involves using an innovative five-stage filtering process, that employs computational linguistics methods, to derive a unique sample of 2,898 first post Message Board takeover rumors disseminated during the period January 2003 to December 2008, inclusive. Overall, our analysis, utilizing intraday Trade and Quote (TAQ) data, reveals that Message Board takeover rumors generate significant positive abnormal returns and trading volumes. Finally, after verifying the robustness of these results to the influence of sample selection bias and an alternative matched control firm abnormal returns metric, we find that Message Board takeover rumors present an economically exploitable opportunity for investors.

Keywords: Internet Stock Message Boards; Price Discovery Process; Takeover; Rumor; Computational Linguistics.

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