The Perils of Crying 'Fake News'
by Mancy Luo, Alberto Manconi, and Massimo Massa

Discussant: Asaf Manela
Washington University in St. Louis

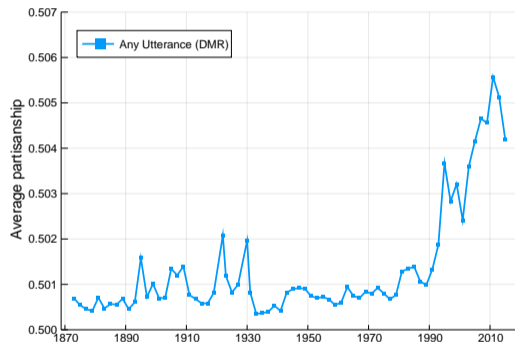October 2019

**WashU Olin
Business School**

Textual Partisanship

Defined as ease of guessing speaker's party by reading only their speech

- ▶ Gentzkow-Shapiro-Taddy (2019 ECTA)
    - ▶ Partisanship of congressional speech rose sharply since 1990s
   - ▶ Use DMR (Poisson per phrase)

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  ▶ Use DMR (Poisson per phrase)
▶ Kelly-Manela-Moreira (2019 WP)
  ▶ Text Selection model (HDMR) gives a more nuanced answer
  ▶ Partisanship was as high in 1920s
    ▶ Manifested in *repetition*
  ▶ Since 1990s parties *select* entirely distinct language
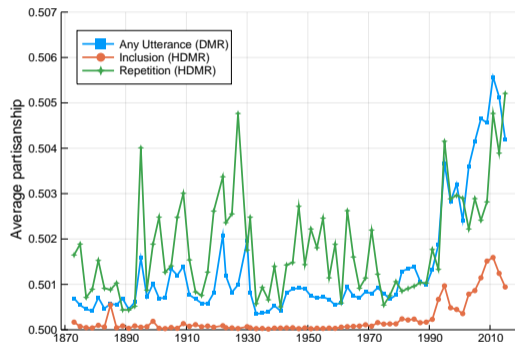
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Partisan phrases
US Congress, Session 114 (2015-2016)

Inclusion (HDMR)

Republican	#R	#D	Democratic	#R	#D
taxpay dollar	39	27	background check	39	65
american taxpay	20	14	depart homeland	43	60
sponsor terror	12	7	fund bill	21	33
death america	6	1	civil right	19	30
tax dollar	10	6	gun violenc	37	47
radic islam	5	1	african american	13	22
state sponsor	9	4	moment silenc	13	21
job creator	7	3	middl class	22	28
ballist missil	10	6	vote right	7	13
trillion debt	5	1	mass shoot	9	14

Repetition (HDMR)

Republican	#R	#D	Democratic	#R	#D
american peopl	7100	5451	postal servic	966	1870
men women	2714	2097	year ago	2840	3130
privat properti	475	221	public servic	611	791
intern revenu	452	211	year old	770	925
state depart	1006	776	citizen unit	329	476
support bill	1318	1121	million peopl	910	1039
san francisco	535	384	take away	592	694
author act	609	472	take action	644	741
great state	672	536	honor repres	198	295
bill right	341	210	find way	453	541

Source: Kelly-Manela-Moreira (2019), *Text Selection*

Question

Does the perception of a news source's political affiliation affect its credibility?

▶ CNN and Fox both reported on Fed policy after a presidential tweet Oct 1, 2019

"Jerome Powell is in charge. The Fed chair won't say what's next for rate cuts but that's not spooking Wall Street"

"Trump rips Fed, Powell: 'They are their own worst enemies'"

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"After a difficult, months-long search for a new chief executive, scandal-plagued Wells Fargo & Co named as its next leader Charles Scharf, a one-time Jamie Dimon protégé known on Wall Street as a detail-oriented number cruncher who excels in streamlining operations..."

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What this paper does

- Uses News Corp's 2007 acquisition of DJNW as shock to its perceived partisanship
- Classifies firm/stock partisanship by political contributions
- Finds that post-2007
    - Republican stocks are less sensitive to positive news from DJNW
    - Democrat stocks are less sensitive to negative news from DJNW
    - But DJNW sentiment seems unchanged
- Concludes that investors leave money on the table by discounting DJNW post-2007

Contribution

- One of few papers on media and finance to study bias
    - Dyck-Zingales (2003 WP): stocks respond to type of earnings emphasized by press
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  - Kogan-Moskowitz-Niessner (2019 WP): stocks respond less to all news post-revelation of fake news on financial news platforms
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- Corporate political affiliation literature
  - Documents a new cost to firms when media is perceived to be partisan

Suggestion 1: Remove endogenous controls

► Baseline specification:

$$CAR_{it} = \alpha_t + \alpha_i + \beta_1 Post\_Takeover_t + \beta_2 DJ\_Sentiment_{it} + \beta_3 Republican_{it} +$$

$$\beta_4 Post\_Takeover_t \times DJ_{Sentiment_{it}} + \beta_5 Post\_Takeover_t \times Republican_{it} + \beta_6 Republican_{it} \times$$

$$DJ_{Sentiment_{it}} + \beta_7 Post\_Takeover_t \times Republican_{it} \times DJ\_Sentiment_{it} + Controls_{it-1} + \varepsilon_{it} \quad (5)$$

► Controls: *Firm Size, Book-to-market, Leverage, ROA,* $CAR(-11, -2)$
  ► Independent / dependent variables?
► Better to use fixed effects (Angrist-Pischke, 2009; Gormley-Matsa 2014)

Suggestion 2: Political affiliation is endogenous

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  ► e.g. Page-Jones (1979), Gerber-Huber-Washington (2010)

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▶ But firms especially may strategically allocate donations

Total Contributions by Party of Recipient
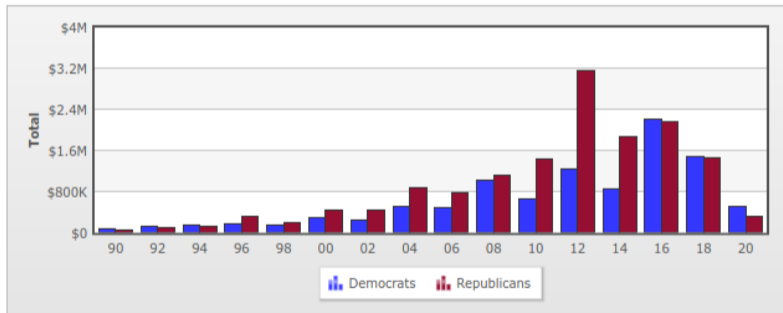
Source: opensecrets.org, Wells Fargo contributions

▶ Instrument or at least acknowledge

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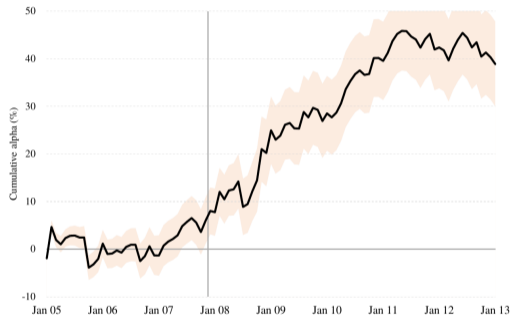▶ But trading strategy performance
suggests a preexisting trend

Figure 2 Performance of a trading strategy tracking DJNW news sentiment

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- ▶ Triple-diff relative to Reuters sentiment would be better
- ▶ Requires a weaker assumption of parallel trends
- ▶ Quick look at point estimates suggest it is not there
- ▶ But again, I would remove the controls from both

Sentiment source	Press Releases	Reuters Newswire	Dow Jones Newswire
	(1)	(2)	(4)
DJ_Sentiment	0.003***	0.015***	0.016***
	(5.36)	-24.18	(33.54)
Republican	0.000	0.001	-0.001*
	(0.44)	-0.66	(-1.90)
Post_Takeover × DJ_Sentiment	0.001	0.003**	-0.009***
	(1.18)	-2.48	(-15.43)
Republican × DJ_Sentiment	0.000	-0.001	0.001
	(0.10)	(-0.39)	(0.81)
Post_Takeover × Republican	0.001	0.003**	0.003***
	(1.00)	-2.05	(3.94)
Post_Takeover × Republican × DJ_Sentiment	-0.001	-0.003	-0.003***
	(-0.51)	(-1.20)	(-2.72)
Controls	Yes	Yes	Yes
Date and firm fixed effects	Yes	Yes	Yes
R^2	0.044	0.041	0.025
N	117,184	168,987	367,328

Tables 6 and 2 spliced together

Suggestion 4: Sentiment measures for alternative sources

- ▶ Sentiment scores for DJNW use proprietary RavenPack algorithm
- ▶ Scores for alternative sources use rudimentary Loughran-McDonald (2011) approach
- ▶ Non-results for Reuters could be due to measurement error
    - ▶ Table 6 shows Reuters mean sentiment increasing post-2007 ...
- ▶ Thomson Reuters News Analytics's sentiment scores would be more comparable
- ▶ Even better, get the text and do yourself for both with same algorithm

My Take

- Paper examines a largely ignored question about how investors respond to perceived media bias
- Major improvement over existing work that treats news media as a judgment-free ice cream producer
  - Neat natural experiment
  - Careful and creative analysis
- Properly differencing out Reuters would be especially useful

Appendix / Minor Comments

▶ Something seems weird about the t-stats reported in Table 6, perhaps a confusion between negative and parentheses?