Can Google Trends Index data be used to predict stock returns?

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Abstract

The main purpose of this paper is to study the relationship between Google Trends Index (GTI) and the stock returns in the subsequent period. Using weekly GTI data from 2013 to 2018 for 30 Dow Jones Industrial (DJI) companies, I find that a high GTI is associated with negative returns in the next period. These results are in line with Bijl et al. (2016), who conduct a similar study using data from 2008-2013. Additionally, my findings indicate that a high GTI for a particular DJI stock reduces its probability of performing better than the DJI index in the following period. A one standard deviation higher GTI decreases the probability of stock beating the DJI index in the following week by 5 percentage points or equivalently by 10 %, with mean probability of beating DJI index equal to 0.5.

Keywords: Google Search Trends, Stock Returns, Efficient Markets.

JEL Codes: G1, G4, D8

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