Summary of Attention Spillover in Asset Pricing

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1 What are the research questions?

- How the interaction between overconfidence and limited attention affect asset pricing

2 Why are the research questions interesting?

- Asset pricing theories have used overconfidence and limited attention biases to explain market phenomena, but typically focus on one at a time
- Many investors also tend to purchase "other stocks that come into their view." yet it has not been clearly identified or quantified in the past
- This study show that two biases work through a mechanism that each bias alone would not generate

3 What is the paper's contribution?

- Literature on limited attention and overconfidence on asset pricing
  - Prior1: examine the implications of overconfidence and limited attention separately
  - Prior2: mostly through an underreaction channel
  - Prior3: Distinguishing the asset pricing effect challenging because investors tend to pay more attention when there is more fundamental news
  - Extend1: underscores the importance of the interaction, rather than simple addition
  - Extend2: highlights an economic mechanism that is distinct from price impacts that limited attention alone generate.
  - Extend3: provides better-identified evidence of the attention effect.

4 What hypotheses are tested in the paper?

- Hypotheses
  - Stock's short-term future return and turnover should be positively associated with the past performance of its neighboring stocks.
- Proof
  - Attention spillover effect: investors tend to pay more attention to stocks with listing codes adjacent to their currently held stocks

5 Sample: appropriateness of the sample selection procedures

- Multilevel rigorous data integration: macro-level prices + micro-level accounts + individual psychological surveys

6 Comment on the appropriateness of variable definition and measurement

- RLocal(Residual Local Attention Return), identify the attention spillover effect, because the order of the listing code is largely exogenous

7 Comment on the appropriateness of the regress/predict model

- The primary conclusions are robustly validated through cross-sectional regressions, portfolio analyses, behavioral data tests, and questionnaire verifications.

8 What difficulties arise in drawing inferences from the empirical work?

- RLOCAL relying on the arrangement of the platform, but it is hard to directly observe whether investors truly "see" these neighboring stocks

9 Describe at least one publishable and feasible extension of this research.

- Conducted across different types of markets, such as Platforms with varying interface sorting rules, different users.

10 Describe the relationship between papers.

- They all study the role of investor psychology and cognitive biases such as sentiment, attention spillover, and regret in shaping asset prices.