Discussion of "News Releases and Mispricing" by Chordia, Miao, and Noh

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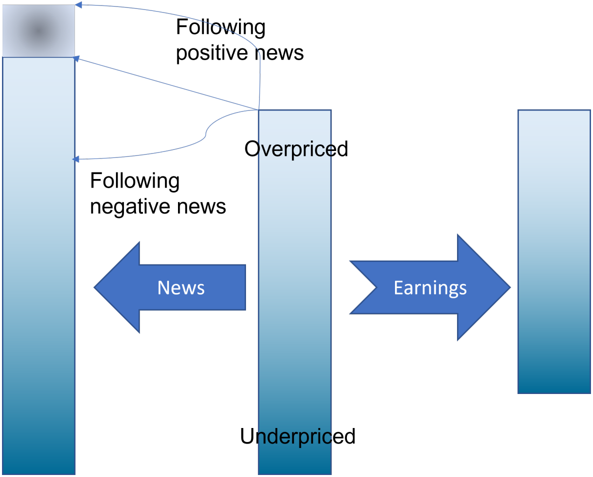
Summary

- This paper shows that earnings announcements *reduce* mispricing, whereas sentiment news *increases* mispricing.
- This result is in contrast to Engleberg et al. (2018), who show that news reduces mispricing
- High-frequency or low latency trading exacerbates mispricing upon news release.
- This paper suggests that this may be driven by biased investor belief (e.g., return extrapolation)

Graphical Summary



Understanding the key takeaway

This paper contains many interesting and novel findings. The subject of this is clear:

This paper studies how stocks' mispricing is affected differently across multiple dimensions.

However, the focus of this paper can be refined. This paper studies three different angles of the subject.

- ▷ News is different from earnings announcements.
- ▷ Sentiment news that are positive and negative have different effects on mispricing.
- ▷ There are two different sample periods, with a different degree of dominance of positive sentiment news

Comment 1: News and earnings

- The opposite effect on mispricing is interesting. One key distinction between earnings announcement and sentiment-driven news is that earnings announcement reduces uncertainty and sentiment news is speculative.
- What about news driven by earnings announcements? I suppose earning surprise increases sentiment driven news?
- How about the release of important information that affects firm value or future earnings (e.g., development of new product or technology)?
- Drawing the line between earnings announcement and news would be useful.

Comment 2: Why does news increase mispricing?

- This paper has the opposite result to Engleberg, McLean, and Pontiff (2018).
- The difference in the source of data is mentioned (Section 3.2.4.2): sample period, news coverage and sentiment measured. However, does not provide a clear answer to why we see an opposite result.
- But shows positive news increases mispricing for both dataset.
- If the driver is about the news itself, a better explanation of the key drivers of the difference is needed. If the emphasis of this paper is on the asymmetric effect, the authors can further question why. The discussion of news vs earnings is adding confusion.

Comment 3: External Investor Relations

Investor relations firms 'spin' their clients' media coverage by getting more coverage of good news than bad news. This pushes up stock prices in the short term. (Solomon 2012)

- ▷ If IR firms increase over time, this will explain why news increase mispricing (as opposed to Engleberg et al.) in the sample of this paper. Current analysis is insufficient.
  - Positive news increases over 2000-2019 in Figure 1A. However, Figure 1B does not show such evidence.
  - Even if we assume that there is an increase, the pre-2013 sample (1979-2013 covered by EMP) needs to be separated from 2014- in Table 2 or 3A.
  - Currently, it is not clear what we learn from this exercise. Similarly, Table 7–8 seem redundant or repetitive.

Comment 4: Who are HF traders/LL traders?

- This paper shows that HFT and LLT exacerbate mispricing upon news release.
- The results are counter-intuitive since HFT is often automated unless HFT strategies are built on aggregating news information.
- But, then it is puzzling since it is not clear why HF traders would implement systematically losing strategies.
- The authors could, for example, test whether these strategies generate profit over a very short horizon despite being a losing strategy over a longer term.

Minor comments

- Organization of the tables can be improved, particularly Tables 2 and 3.
- Is there any evidence of return extrapolation mentioned in the introduction?

  It seems what is needed is rather extrapolation on news and not on returns: investors believe positive news will lead to increased future earnings, leading to positive future returns.
- Engleberg, McLean, and Pontiff (2018) and several other papers cited are not in the reference list.

Conclusion

- An interesting paper with a rich set of results
- This paper shows how mispricing changes after a earnings announcement or a news release
- Improves our understanding about the source of mispricing.
- A more focused main hypothesis and a more extensive analysis of the main hypothesis would help.