FinTechs and the Market for Financial Analysis

discussion by

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- Current financial system is rather inefficient
- Unit cost of traditional financial intermediation is high (about 2%) and came down very little after the 2008 crisis (Philippon, 2016, Bazot, 2013):
    - Improvements in information technologies have not been passed to the end users in the form of lower costs
    - Oligopolistic rents
- Most advanced economies also reached the point when more old school finance does not create economic value added (Favara, 2009, Cecchetti and Kharroubi, 2012 etc)
- Rigid regulation focused on encumbents
- FinTechs as new entrants free from legacy issues and focused on provisions of specific services

- This paper studies the effect of FinTechs on market for financial analysis: stock market analysts
- Focuses on two particular types of FinTechs: information aggregators and information producers
- Information aggregators: streamline the wealth of information into simplified metrics or simple buy/sell indicators
  - Efficiency gain is on the cost side: substitution
- Information producers: supposedly produce a valuable independent advice by uncovering non-traditional sources like bloggers
  - Efficiency gain is on the information production side: complementation

- Very ambitious paper
- Tremendous data effort
- A number of interesting results
- Some polishing to fit all pieces together
    - Data
    - Focus of the paper
    - Identification

- Dataminr.com
  - Total visits 223.64K per month
  - Average visit duration 1min 38 secs
  - Pages per visit 1.82
  - Bounce rate 40.18%
- estimize.com
  - Total visits 184.95K per month
  - Average visit duration 2min 28 secs
  - Pages per visit 3.55
  - Bounce rate 24.12%
- Benzinga.com
  - Total visits 2.15M per month
  - Average visit duration 37min 56 secs
  - Pages per visit 6.73
  - Bounce rate 61.16%
- Seekingalpha.com
  - Total visits 27.36M per month
  - Average visit duration 19min 24 secs
  - Pages per visit 6.49
  - Bounce rate 47.28%
- Finance.yahoo.com
  - Total visits 162.59M per month
  - Average visit duration 5min 43 secs
  - Pages per visit 8.79
  - Bounce rate 42.02%

- Chen et al (RFS, 2014): opinions of seekingalpha.com bloggers are valuable
- This paper: blogger recommendations are value destroying over 90% of the time

- Some reasonable filters
  - To remove the noise
  - Focus on firms which do provide a Tech component in their analysis; control for social network / “non-techy” blog coverage

- Can more FinTech specific tests to separate FinTech from social networks be developed?
  - OriginalAnalysis=f(FinTechVisits)
  - CAR=f(FinTechCoverage)
    - FinTech Coverage is proxied by the frequency of financial blog posts
- This does not differentiate FinTechs from news aggregators like finance.yahoo.com or blogs (seekingalpha.com)

- IV verification:
    - Headline length is not as exogenous to the stock market reaction as it may seem
        - Huang, Nekrasov, and Teoh, 2018, Headline Salience, Managerial Opportunism, and Over-and Under-reaction to Earnings, The Accounting Review: Headline Salience (0.64 correlation with headline length) of corporate reports is positively associated with the stock market reaction to earnings news announcement
    - why not relate the headline length to the importance of the news?
        - There is no need to aggregate headline information at the monthly level; most firms have very few articles per month anyway

- Value of investment advice by financial blogs is negative
- Yet, FinTechs that analyze them improve market quality by supposedly bringing information to the market faster
- Q: Are FinTechs capable of “reversing” the advice of bloggers?