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## ‘BIASED NEWS AND IRRATIONAL INVESTORS: EVIDENCE FROM BIASED BELIEFS ABOUT UNCERTAINTY AND INFORMATION ACQUISITION’

JIATAO LIU- CASS BUSINESS SCHOOL



### ABSTRACT

Investors who use biased information from news media subsequently tend to make irrational decisions about acquiring firm-specific information compared to rational expectations. This model of information acquisition yields testable predictions that are verified by using a novel dataset of news stories. First, when sentiment in news articles, as a proxy for biased public information, is more optimistic, investors tend to acquire less earnings-relevant information before the earnings announcement and vice versa. Second, the return predictability from firm-specific news sentiment confirms that it contributes to variations in asset information risk due, in a biased belief equilibrium, to the proportion of informed investors deviating from rational expectations. Overall, these findings suggest that biased public information inherent in news sentiment serves to irrationalize investors' acquisition of firm-specific information through a biased perception of uncertainties in the risky asset payoff.

**Keywords:** Biased Beliefs; Information Acquisition; News Sentiment; Information Risk; Risk Premium