

Question:

What is the alternative measures of investor attention used in the existing literature? Can you obtain other measures? What is the advantage using Google search probabilities as compared to other measures?

Answer:

Thank you for your question!

Google search probability is a novel and direct measure of investor attention and suggested to proxy for attention of retail investors (Da et al., 2011). In previous literature, investor attention is frequently measured by indirect proxies, such as news headlines (Barber and Odean, 2008; Yuan, 2015) or psychological barriers (Aggarwal and Lucey, 2007). As stated in Introduction (second paragraph, page 3), we use the Google search data as proxy for investor attention because a direct measure is helpful to avoid the problems resulted from those indirect proxies. Headlines or keywords reported in news media are not necessarily a way to guarantee attention unless people actually read it, while people search for one specific term are undoubtedly paying attention to it (Da et al., 2011). Moreover, by employing the retail investor attention we are able to examine the theory of Peng and Xiong (2006) who document that limited investor attention leads to category-hearing behavior, that is, investors tend to process market-wide information rather than firm-specific information.

References

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