Does investor attention matter? The attention-return relation in gold futures market

A review

The current manuscript studies how Google search volume of “GOLD” related terms affect the gold prices. The paper embeds the idea of Google search volume into the idea of investor attention. The study fits in the existing literature on return predictability an the role of investor attention in asset pricing (as outlined for example, in Merton(1987)). In line with the results of relevant studies the authors find that more attention reduces return predictability in the Gold future’s market, and document some non-linarites in the relationship. Overall, the study tackles an interesting research question and the results are promising. I would suggest a minor revision due to two reasons. First the manuscript suffers from a number of typos or inappropriate wording. Second, there are some unclear aspects regarding the organization of this study. I detail open issues of the latter in the following:

(1) The authors introduce that they take search volume as a proxy for investor attention, but I would expect to place this information earlier. Specifically, I would suggest adding Google search volume in the abstract, since it is otherwise unclear how attention is measured.

(2) Adding the results on traders’ positions is interesting. Does investor attention influence returns via the trading channel? If so, what is the null hypothesis here, what findings are expected? It would be better to put more emphasize on this part to give some interpretations or provide empirical evidence to prove the validity of this trading channel assumption. Moreover, is there any possible relationship between investor attention and traders’ position?

(3) If the influences of investor attention is the only thing of interest, they might remove the asset allocation part. Again, the authors might focus on explaining the influence of traders’ position on the attention-return relationship.

(4) The constraints are not directly observed/measured in the paper, and a number of alternative explanations could explain the observed evidence without the constraints. More generally, the authors could discuss several possible explanatory theories, one of which is related to the constraints.

Reference

Merton R C. A simple model of capital market equilibrium with incomplete information. The Journal of Finance, 1987, 42(3): 483-510.