Report for Economics Discussion Paper No. 2017-37
Does investor attention matter? The attention-return relation in gold futures market

Summary

This paper examines whether investor attention, proxied for by the Google Search Index for terms related to gold, can explain future gold returns. Using VARs, the authors find that Google searches indeed can help explain gold returns and that the sign of the effect changes with the lag between measurement of attention and return. The paper includes several additional analyses of interaction effects of attention with other variables.

Comments and suggestions

This paper deals with a research question that appears sufficiently interesting as an addition to the growing literature on investors attention that has been conducted on other asset classes. However, I see several substantial issues in the empirical analyses and their interpretation that need to be fixed. Furthermore, the quality of the writing is not of a standard sufficient for publication. The following comments provide details of the main issues.

1. In order to obtain a meaningful interpretation of the interaction terms, the interacted variables should be centered. Only then can we interpret the unconditional variables as measuring unconditional predictability. In the paper, the interpretation of all analyses that include interaction terms does not consider this issue.

2. The discussion of results is often highly speculative and goes beyond what can be inferred from the empirical analysis. The authors should stick with what they directly gather from their regression results.

3. In the analysis including squared terms of attention, the claim that simply adding the regression coefficients yields the combined effect of attention is incorrect. In the same analysis, the paper does not consider whether the dependent variable is merely concave in sentiment or whether the effect actually changes its sign in the range of values the sentiment takes in the data.

4. It is not obvious why the results for individual search terms are reported. The authors should focus on the combined search activity for their gold-related terms.

5. The authors claim that their analyses examines the theory of category learning (Peng and Xiong, 2006). How is that possible if the paper considers only a single asset?

6. The paper requires substantial editing by a native English speaker. Language issues make the current paper at times hard to comprehend. The analyses appear sometimes poorly motivated, which may be in part caused by the authors' limited grasp of the English language.