

# Making News Salient

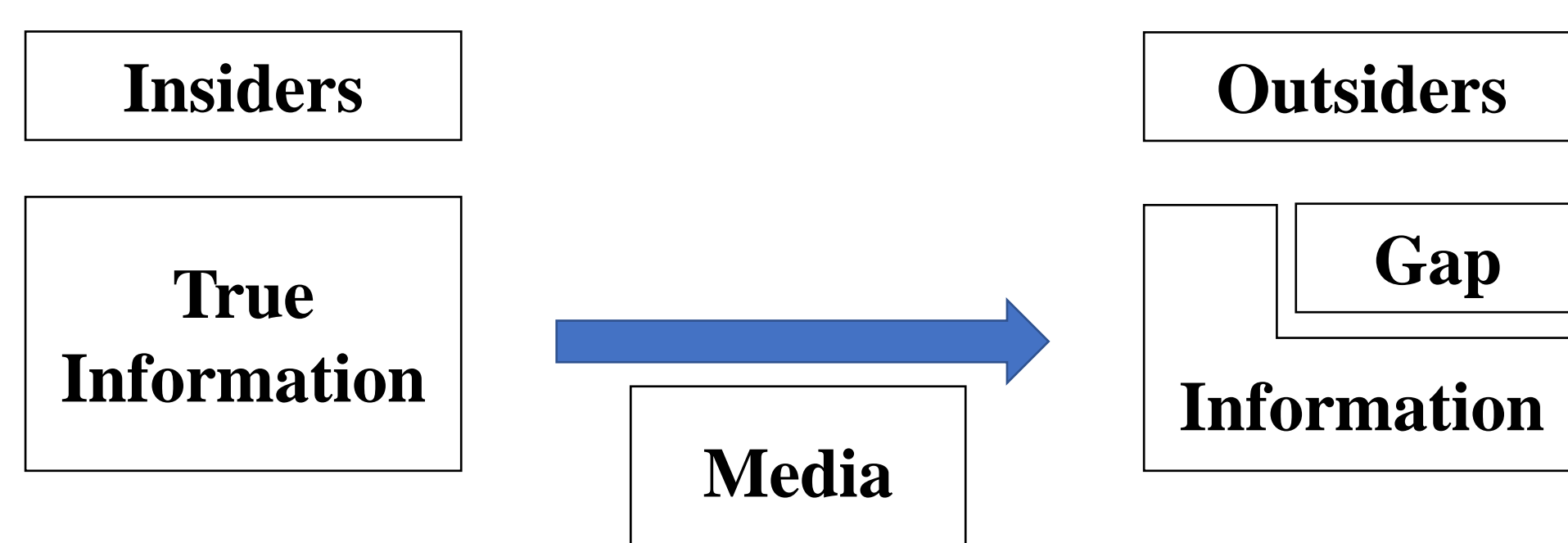
Seungho Choi  
Queensland University of Technology

## Abstract

CEOs have incentives to communicate with their investors after news releases if the market misinterprets the news. I examine how CEOs communicate with the market through their trading patterns. I find that CEOs are more likely to purchase shares after positive and negative news releases, suggesting that they want to confirm their positive news if the market underreacts to it and want to mitigate the market overreaction to their negative news by purchasing shares. These patterns vary conditional on the information environment, institutional ownership, and news categories. My results suggest that CEOs can make the news salient via their trading pattern.

## Motivation

- Information asymmetries between CEOs and outside investors.
- When the information is revealed to the market, the news media play an important role in disseminating the information to the market.



- CEOs can recognize the informational gap promptly after news releases → CEOs have incentives to correct the market (mis)valuation.
- How do CEOs communicate with their investors?
- One possible way is to send a signal to the market through their trading patterns.

## Why CEO Open Market Purchase?

- I focus on CEO open market purchase transactions rather than open market sale transactions.
- CEOs have incentives to correct the misvaluation only if the communication increases the value of the stock → **Market undervaluation!**
- If CEOs send a false signal, then the market will fairly value the stock in the long run and would realize that it was the false signal.
- The investors would not punish them in the case that CEOs do not send the negative signal to correct the market overvaluation.
- Only open market purchase transactions can be considered as a tool of signaling.

## Hypothesis Development

**H1:** CEOs are more likely to correct the market misvaluation by purchasing shares after news releases if the market underreacts (overreacts) to their positive (negative) news

**H2:** CEOs in firms with transparent information environment are less likely to purchase shares after news releases.

**H3a:** CEOs have stronger incentives to communicate with their investors after positive soft news releases.

**H3b:** CEOs have stronger incentives to communicate with their investors after negative hard news releases.



## Empirical Results

### CEO purchase trading pattern after news release by news tone

	(1) [-2, -1] Buy	(2) [-3, -1] Buy	(3) [-5, -1] Buy
LN(Pos_News)	0.003*** (4.23)	0.003*** (4.36)	0.003*** (4.79)
LN(Neg_News)	0.000** (2.99)	0.001*** (6.42)	0.001*** (10.11)
LN(Neu_News)	-0.001*** (-3.22)	-0.000** (-2.18)	0.000 (0.07)
Constant	0.010 (1.73)	0.010* (1.79)	0.011* (1.92)
Observations	6,955,190	6,955,190	6,955,190
Adjusted R-squared	0.026	0.027	0.027
Control Variables	Yes	Yes	Yes
Fixed Effect	Firm & Year	Firm & Year	Firm & Year

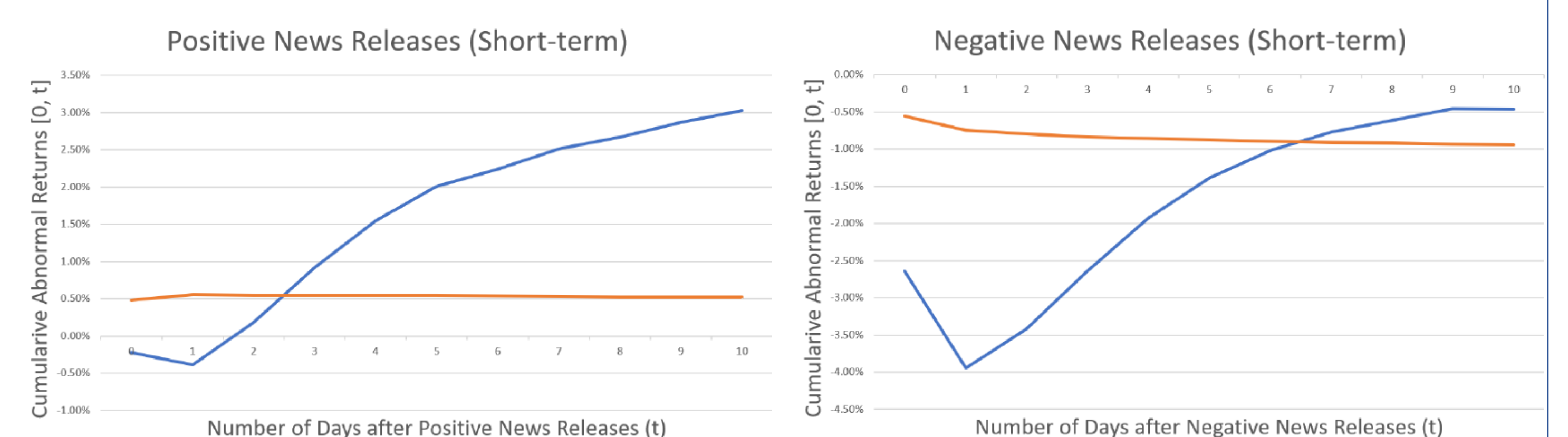
### Do CEO trading patterns vary depending on information environment?

	(1) [-2, -1] Buy	(2) [-3, -1] Intensive Analyst Coverage Buy	(3) [-5, -1] Buy	(4) [-2, -1] Active Information Acquisition Buy	(5) [-3, -1] Buy	(6) [-5, -1] Buy
Transparent X LN(Pos_News)	-0.004*** (-4.93)	-0.004*** (-5.09)	-0.004*** (-5.50)	-0.003*** (-6.00)	-0.003*** (-6.45)	-0.002*** (-6.21)
Transparent X LN(Neg_News)	0.000 (1.09)	-0.000 (-1.40)	-0.001*** (-4.92)	0.000 (1.55)	0.000 (0.10)	-0.000** (-2.21)
LN(Pos_News)	0.005*** (4.68)	0.005*** (4.82)	0.005*** (5.24)	0.005*** (10.66)	0.005*** (11.20)	0.005*** (11.88)
LN(Neg_News)	0.000 (1.64)	0.001*** (5.51)	0.001*** (8.73)	0.000 (0.31)	0.001*** (3.16)	0.001*** (7.91)
LN(Neu_News)	-0.000*** (-3.02)	-0.000* (-1.93)	0.000 (0.23)	-0.001*** (-4.27)	-0.000*** (-2.71)	0.000 (-0.28)
Transparent	0.000 (1.34)	0.000* (2.15)	0.001*** (3.52)	0.000** (2.26)	0.001*** (2.70)	0.001*** (3.37)
Constant	0.009 (1.61)	0.010 (1.64)	0.010 (1.73)	0.009 (1.59)	0.009* (1.65)	0.010* (1.82)
Observations	6,955,190	6,955,190	6,955,190	6,571,281	6,571,281	6,571,281
Adjusted R-squared	0.027	0.027	0.027	0.028	0.028	0.028
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes
Fixed Effect	Firm & Year	Firm & Year	Firm & Year	Firm & Year	Firm & Year	Firm & Year

### Do CEO trading patterns vary depending on news type?

	(1) [-2, -1] Buy	(2) [-3, -1] Buy	(3) [-5, -1] Buy
LN(Hard_Pos)	-0.000** (-2.45)	-0.000* (-2.03)	-0.000 (-1.36)
LN(Hard_Neg)	0.001*** (5.25)	0.002*** (6.65)	0.003*** (8.48)
LN(Hard_Neu)	-0.000** (-2.35)	-0.000 (-0.10)	0.000*** (3.43)
LN(Soft_Pos)	0.004*** (3.73)	0.004*** (3.77)	0.004*** (4.08)
LN(Soft_Neg)	0.000 (1.57)	0.000 (1.76)	0.000** (2.18)
LN(Soft_Neu)	-0.000* (-2.04)	-0.000 (-1.27)	0.000 (0.54)
Constant	0.011**	0.011**	0.012**
Observations	6,955,190	6,955,190	6,955,190
Adjusted R-squared	0.026	0.027	0.027
Control Variables	Yes	Yes	Yes
Fixed Effect	Firm & Year	Firm & Year	Firm & Year

### Does the market learn from CEO open-market purchase after news release?



### Do CEOs have intention to communicate with the market?

	(1) [-2, -1] Reporting Gap	(2) [-3, -1] Reporting Gap	(3) [-5, -1] Reporting Gap
News-related Buy	-0.087*** (-5.79)	-0.084*** (-6.50)	-0.047*** (-3.28)
Constant	0.690*** (2.63)	0.692*** (2.64)	0.744*** (2.87)
Observations	7,905	7,905	7,905
Adjusted R-squared	0.247	0.247	0.241
Control Variables	Yes	Yes	Yes
Fixed Effect	Firm & Year	Firm & Year	Firm & Year

## Conclusion

- CEOs have incentive to communicate with their investors after news releases if the market misinterprets the news
- CEOs are more likely to purchase shares after news releases in the cases of the market undervaluation
- The patterns vary conditional on information asymmetries and investor attention
- The market learns from CEO trading patterns, and CEOs report their transactions quicker when they purchase shares after news releases
- CEOs can **make news salient** by sending the signal to the market through their trading patterns