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# How does media coverage affect share prices?



By [Angela Garvey Hammond](#)

## **INSEAD research suggests the best returns come from companies who never make the news.**

“News Corp ‘train wreck’ - how bad is it? Shares of Murdoch's News Corp slumped 4.3% to \$15.40”

“Apple eyes bigger slice of China”

“Bank of America reports loss of \$8.8 billion”

These are some of the morning business headlines from USA Today, The Wall Street Journal and The New York Times from July 18. Only Apple’s headline is positive and by the end of the day’s trading Apple’s share price had shot up, helped by another quarter of strong profits.

Of course, Apple is riding the current wave of buzzy, much-loved stocks to hold and remains the darling, it seems, of both the media and the stock market. But INSEAD Associate Professor of Finance Joel Peress suggests that if you want to make some real money, bite into a much quieter company that has never featured in the business pages at all.



Peress, along with a colleague, [Lily Fang](#), studied the press coverage of stocks and shares in four US newspapers on a monthly basis. “We found a portfolio of stocks with no media coverage outperformed stocks with high media coverage by 3 percent per year after adjustments,” he told INSEAD Knowledge. “The return difference is particularly large among small stocks, stocks with low analyst coverage and stocks primarily owned by individuals. In these, the “no-media premium” ranges from 8 percent to 12 percent per year”.

## High risk, high return

Peress explains that the smaller unknown companies tend to have fewer investors so the risk is higher, but so are the returns. If you invest in a Fortune 500 or FTSE 100 company you are sharing that risk with thousands of others, but also the profits.

So why are we all not rushing out to buy these unloved gems, which are quietly trading very nicely on the markets without as much as a peep?

Andrew Williamson is a hedge fund manager in the City of London. He specialises in this sector of unloved, unnoticed value stocks and deliberately fishes for the ones that operate under the media radar. “These shares are for a tiny subset of investors,” he says. “They often have no broker coverage and are certainly not in fashion, like Google or Facebook. The shares can be cheap and returns good, but the details around the company may be complicated. Ultimately they are seen as too boring, too small and not deemed newsworthy, so they get overlooked by the media.”

With all the turmoil that News International is currently going through and the repercussions on its share price, Rupert Murdoch may well be wishing his company was a little more overlooked by the press at the moment. Shares in his media empire, which are listed in New York and Australia, have fallen sharply since the phone-hacking scandal in the UK first erupted.

But how much of the change in News International’s share price, or indeed any stock price, is really down to media coverage and how much is it down to the actual events within the company? “The dissemination of information matters to stock returns and the media play a central role in that process,” Peress says. “I found that announcements with media coverage generated a

stronger price and trading volume reaction at the time of the announcement. Our work implies that firms can reduce their cost of capital through media-relations activities.”

## **Demand for expertise**

It’s for this reason that multinationals employ media strategy experts, like Richard Griffiths at Ketchum Pleon. His clients include FedEx, IBM, Philips, Procter and Gamble and Kodak, and his job is to build a company’s reputation among investors, which ultimately feeds through to the share price. “The share price of companies is an indication of investor sentiment but it’s only one measure, albeit important,” he says. “A share price does not necessarily reflect how all stakeholders feel. Measurement of media relations and a broader PR programme needs to assess changes in awareness, comprehension, attitude and behaviour towards a particular brand and business results.”

The proliferation of specialist business magazines and investment journals suggests our appetite for making money is increasing. Peress’ latest research may well entice investors to look beyond the press for interesting stock. However with tantalising stocks like Apple and Facebook always in the media and boardroom dramas like News International on the front pages, investors are likely to stay mainstream for the foreseeable future.

*Professor Joel Peress was the winner of the 2011 Prize for the "Best Young Researcher in Finance", awarded by the l'Institut Louis-Bachelier and l'Institut Eurolplace de Finance, two French foundations that promote financial research.*

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