

ONLINE APPENDIX TO
“WHAT DETERMINES WORD-OF-MOUTH EFFECTS
IN FINANCIAL MARKETS?”

Table A1. “Target Investors” Instrumented via Lagged One-Year Holdings

This table reports coefficient estimates from analyses similar to those reported in Tables 2 and 3. *Target Investor* now takes the value of one if an investor holds the target stock one year prior to the M&A announcement. *Target Neighbor* takes the value of one if an investor lives within three miles of such a target investor. Standard errors, shown in brackets, are clustered at the zip-code- and the year-month-of-an-M&A-announcement level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	Stock-Financed M&As		Cash-Financed M&As	
	# Trades (1)	\$ Trades (2)	# Trades (3)	\$ Trades (4)
Panel A: Target Investors				
<i>Target Investor</i>	0.0142*** [0.0034]	0.0120*** [0.0033]	0.0013 [0.0033]	0.0013 [0.0033]
Investor Controls	YES	YES	YES	YES
Zip Code Controls	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES
Adj. R ²	1.50%	1.44%	2.35%	2.24%
# Obs.	6,943,336	6,943,336	3,220,313	3,220,313
Panel B: Target Neighbors				
<i>Target Neighbor</i>	0.0014** [0.0006]	0.0015** [0.0007]	-0.0001 [0.0009]	-0.0001 [0.0009]
Investor Controls	YES	YES	YES	YES
Zip Code Controls	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES
Adj. R ²	1.50%	1.45%	2.35%	2.24%
# Obs.	6,941,105	6,941,105	3,219,641	3,219,641

Table A2. The Number of Target Investors in the Neighborhood

This table reports coefficient estimates from analyses similar to those reported in Panel B of Tables 2 and 3. The main independent variable, # *Target Investors*, now is the number of target investors who live within three miles of an investor who is not a target investor him-/herself. Standard errors, shown in brackets, are clustered at the zip-code- and the year-month-of-an-M&A-announcement level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	Stock-Financed M&As		Cash-Financed M&As	
	# Trades (1)	\$ Trades (2)	# Trades (3)	\$ Trades (4)
<i># Target Investors</i>	0.0013*** [0.0004]	0.0011*** [0.0004]	0.0006 [0.0008]	0.0005 [0.0008]
Investor Controls	YES	YES	YES	YES
Zip Code Controls	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES
Adj. R ²	1.66%	1.59%	2.37%	2.26%
# Obs.	7,578,642	7,578,642	3,488,558	3,488,558

Table A3. Target Neighbors' Trading in the Acquirer Firm

This table reports coefficient estimates from analyses similar to those reported in Panel B of Table 2. The dependent variable now is the number of trades in the acquirer firm itself in months 7 through 18 after the M&A is announced (Column (1)), the dollar value of trades in the acquirer firm itself (Column (2)), or an indicator variable, which takes the value of one if an investor places at least one trade in the acquirer firm itself (Column (3)). Standard errors, shown in brackets, are clustered at the zip-code- and the year-month-of-an-M&A-announcement level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	# Trades (1)	\$ Trades (2)	I(Trades) (3)
<i>Target Neighbor</i>	0.0016*** [0.0005]	0.0073*** [0.0021]	0.0008*** [0.0002]
Investor Controls	YES	YES	YES
Zip Code Controls	YES	YES	YES
M&A Fixed Effects	YES	YES	YES
Adj. R ²	0.49%	0.76%	0.75%
# Obs.	7,578,642	7,578,642	7,578,642

Table A4. The Likelihood of Trading in the Acquirer Industry

This table reports coefficient estimates from analyses similar to those reported in Panel B of Table 2. The dependent variable now is an indicator variable, which takes the value of one if there is any trading in the acquirer industry in months 7 through 18 after the M&A is announced. We estimate both logit models (Column (1)) and OLS regressions (Columns (2)-(3)). For the logit models, the coefficient estimates are converted into marginal probabilities. Standard errors, shown in brackets, are clustered at the zip-code- and the year-month-of-an-M&A-announcement level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	Logit (1)	OLS (2)	OLS (3)
Panel A: Target Investors' Likelihood of Trading in the Acquirer Industry			
<i>Target Investor</i>	0.0625*** [0.0051]	0.1028*** [0.0111]	0.0974*** [0.0109]
Investor Controls	YES	NO	YES
Zip Code Controls	YES	YES	YES
M&A Fixed Effects	YES	YES	YES
Adj. R ²	4.62%	0.06%	2.44%
# Obs.	7,580,936	7,580,936	7,580,936
Panel B: Target Neighbors' Likelihood of Trading in the Acquirer Industry			
<i>Target Neighbor</i>	0.00635*** [0.0015]	0.0133*** [0.0019]	0.0071*** [0.0017]
Investor Controls	YES	NO	YES
Zip Code Controls	YES	YES	YES
M&A Fixed Effects	YES	YES	YES
Adj. R ²	4.61%	0.05%	2.43%
# Obs.	7,578,642	7,578,642	7,578,642

Table A5. Buy vs. Sell Transactions

This table reports coefficient estimates from regressions of target neighbor trading in the acquirer industry on target investor trading in the acquirer industry. The dependent variable in Columns (1) and (3) is a target neighbor's number of buy (sell) trades in the acquirer industry (excluding the acquirer firm) as a fraction of the total number of buy (sell) trades across all industries in months 7 through 18 after the M&A is announced. The dependent variable in Columns (2) and (4) is a target neighbor's dollar value of buy (sell) trades in the acquirer industry (excluding the acquirer firm) as a fraction of the total dollar value of buy (sell) trades across all industries in months 7 through 18 after the M&A is announced. The main independent variable, *Target Investor Trading*, is the corresponding target investor's total number or total dollar value of buy (sell) trades in the acquirer industry (excluding the acquirer firm) as a fraction of the total number or total dollar value of buy (sell) trades across all industries in months 7 through 18 after the M&A is announced. Standard errors, shown in brackets, are clustered at the zip-code- and the year-month-of-an-M&A-announcement level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	Buy		Sell	
	# Trades (1)	\$ Trades (2)	# Trades (3)	\$ Trades (4)
<i>Target Investor Trading</i>	0.0175*** [0.0056]	0.0173*** [0.0057]	0.0080** [0.0041]	0.0079* [0.0044]
Investor Controls	YES	YES	YES	YES
Zip Code Controls	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES
Adj. R ²	1.64%	1.44%	2.35%	2.24%
# Obs.	7,580,936	7,580,936	7,580,936	7,580,936

Table A6. Pseudo-Target Investors' and Pseudo-Target Neighbors' Trading in the Acquirer Industry

This table reports coefficient estimates from analyses similar to those reported in Tables 2 and 3. Rather than examine the trading behavior of target investors and target neighbors, in Panels A and B, we now consider the trading behavior of pseudo-target investors and pseudo-target neighbors. Specifically, for each M&A, we identify the industry peer that has the closest market capitalization and book-to-market ratio to the actual target firm and that is not being acquired itself (\equiv "pseudo target firm"). We then examine whether current shareholders of the pseudo target firm and their neighbors change their trading behavior vis-à-vis the acquirer industry. In Panels C and D, we consider only investors who trade or hold stocks in the acquirer industry in the year prior to the M&A announcement (and, as a result, are much less likely to be positively "shocked" by the endowment of acquirer firm shares). Standard errors, shown in brackets, are clustered at the zip-code- and the year-month-of-an-M&A-announcement level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	Stock-Financed M&A		Cash-Financed M&A	
	# Trades (1)	\$ Trades (2)	# Trades (3)	\$ Trades (4)
Panel A: Pseudo Target Investors' Trading in the Acquirer Industry				
<i>Pseudo Target Investor</i>	0.0006 [0.0018]	-0.0006 [0.0019]	-0.0009 [0.0028]	-0.0003 [0.0030]
Investor Controls	YES	YES	YES	YES
Zip Code Controls	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES
Adj. R ²	1.66%	1.59%	2.36%	2.25%
# Obs.	7,558,105	7,558,105	3,476,999	3,476,999
Panel B: Pseudo Target Neighbors' Trading in the Acquirer Industry				
<i>Pseudo Target Neighbor</i>	-0.0003 [0.0006]	-0.0003 [0.0006]	0.0005 [0.0008]	0.0004 [0.0008]
Investor Controls	YES	YES	YES	YES
Zip Code Controls	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES
Adj. R ²	1.66%	1.59%	2.36%	2.25%
# Obs.	7,555,604	7,555,604	3,475,477	3,475,477

Table A6. Continued.

Panel C: Target Investors' Trading in the Acquirer Industry among Investors who Trade or Hold Stocks in the Acquire Industry in the Year prior the M&A				
<i>Target Investor</i>	0.0048 [0.0050]	0.0009 [0.0052]	-0.0015 [0.0096]	-0.0040 [0.0098]
Investor Controls	YES	YES	YES	YES
Zip Code Controls	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES
Adj. R ²	8.83%	8.68%	9.87%	9.68%
# Obs.	1,551,059	1,551,059	587,642	587,642
Panel D: Target Neighbors' Trading in the Acquirer Industry among Investors who Trade or Hold Stocks in the Acquire Industry in the Year prior the M&A				
<i>Target Neighbor</i>	-0.0034 [0.0029]	-0.0040 [0.0030]	0.0026 [0.0055]	0.0044 [0.0059]
Investor Controls	YES	YES	YES	YES
Zip Code Controls	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES
Adj. R ²	8.83%	8.68%	9.87%	9.68%
# Obs.	1,549,568	1,549,568	587,323	587,323

Table A7. Past Investor Performance and the Size of Contagion

This table reports coefficient estimates from regressions of investor trading in the acquirer industry on a target neighbor dummy. The regressions are identical to those in Panel B of Table 2, but we now estimate the regressions separately for various subsamples. In Panel A, we sort target neighbors based on the corresponding target investors' portfolio returns in the quarter prior to the M&A announcement. In Panel B, we sort target neighbors based on target neighbors' portfolio returns in the quarter prior to the M&A announcement. "High" and "Low" represent top- and bottom-half observations, respectively. Standard errors, shown in brackets, are clustered at the zip-code- and the year-month-of-an-M&A-announcement level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	High		Low	
	# Trades (1)	\$ Trades (2)	# Trades (3)	\$ Trades (4)
Panel A: The Effect of Target Investors' Past Portfolio Performance				
<i>Target Neighbor</i>	0.0027*** [0.0010]	0.0027*** [0.0010]	0.0015* [0.0009]	0.0014 [0.0009]
Investor control	YES	YES	YES	YES
Zip Code control	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES
Adj. R ²	1.65%	1.58%	1.65%	1.58%
# Obs.	7,558,300	7,558,300	7,560,827	7,560,827
Panel B: The Effect of Target Neighbors' Past Portfolio Performance				
<i>Target Neighbor</i>	0.0037*** [0.0010]	0.0036*** [0.0010]	0.0001 [0.0008]	0.0001 [0.0008]
Investor control	YES	YES	YES	YES
Zip Code control	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES
Adj. R ²	1.65%	1.58%	1.65%	1.58%
# Obs.	7,559,069	7,559,069	7,560,058	7,560,058

Table A8. Social Characteristics and the Size of Contagion

This table reports coefficient estimates from regressions of investor trading in the acquirer industry on a target neighbor dummy. The regressions are identical to those in Panel B of Table 2, but we now estimate the regressions separately for various subsamples. In Panel A, we consider three indices of sociability from Putnam (2000): (1) seminar or class attendance; (2) club meeting attendance; (3) community project participation. We sort target neighbors based on whether the corresponding target investor and target neighbors reside in a state with above-median sociability, or below-median sociability. In Panel B, we sort target neighbors based on whether the corresponding target investor's length of residency at his/her current address is above five years ("High"), or below ("Low"). We choose the five-year cutoff to ensure that we have roughly the same number of observations in each group. In Panel C, we focus on target neighbors residing in metropolitan areas and we sort target neighbors based on whether the corresponding target investor's metropolitan area has a population size that sits above the 75th percentile of its distribution ("High"), or below ("Low"). We choose the 75th-percentile cutoff to ensure that we have roughly the same number of observations in each group. Standard errors, shown in brackets, are clustered at the zip-code- and the year-month-of-an-M&A-announcement level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	>= Median State		< Median State	
	# Trades (1)	\$ Trades (2)	# Trades (3)	\$ Trades (4)
Panel A1: Seminar or Class Attendance				
<i>Target Neighbor</i>	0.0028*** [0.0009]	0.0027*** [0.0009]	-0.0008 [0.0011]	-0.0008 [0.0011]
Panel A2: Club Meeting Attendance				
<i>Target Neighbor</i>	0.0039*** [0.0011]	0.0039*** [0.0011]	0.0003 [0.0009]	0.0002 [0.0009]
Panel A3: Community Project Participation				
<i>Target Neighbor</i>	0.0030*** [0.0009]	0.0030*** [0.0009]	0.0005 [0.0010]	0.0004 0.0010
Investor Controls	YES	YES	YES	YES
Zip Code Controls	YES	YES	YES	YES
Event-Fixed Effects	YES	YES	YES	YES

Table A8. Continued.

	High		Low	
	# Trades (1)	\$ Trades (2)	# Trades (3)	\$ Trades (4)
Panel B: Target Investors' Length at Current Residence				
<i>Target Neighbor</i>	0.0026*** [0.0008]	0.0027*** [0.0008]	0.0010 [0.0020]	0.0006 [0.0021]
Investor control	YES	YES	YES	YES
Zip Code control	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES
Adj. R ²	1.73%	1.66%	1.73%	1.56%
# Obs.	6,711,168	6,711,168	6,689,865	6,689,865
Panel C: Population Density				
<i>Target Neighbor</i>	0.0011 0.0010	0.0011 0.0010	0.0026** [0.0012]	0.0025** [0.00012]
Investor control	YES	YES	YES	YES
Zip Code control	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES
Adj. R ²	1.99%	1.94%	1.73%	1.64%
# Obs.	1,436,074	1,436,074	1,510,209	1,510,209

Table A9. Income Group Definition

Our data vendor groups households into one of the following nine *bins* based on their income:

- bin = 1: household income < \$15,000;
- bin = 2: $\$15,000 \leq \text{household income} \leq \$19,999$;
- bin = 3: $\$20,000 \leq \text{household income} \leq \$29,999$;
- bin = 4: $\$30,000 \leq \text{household income} \leq \$39,999$;
- bin = 5: $\$40,000 \leq \text{household income} \leq \$49,999$;
- bin = 6: $\$50,000 \leq \text{household income} \leq \$74,999$;
- bin = 7: $\$75,000 \leq \text{household income} \leq \$99,999$;
- bin = 8: $\$100,000 \leq \text{household income} \leq \$124,999$;
- bin = 9: $\$125,000 \leq \text{household income}$.

Table A10. Alternative Definitions of *Target Neighbor* and Alternative Time Horizons

This table reports coefficient estimates from regressions of investor trading in the acquirer industry on a target investor- or a target neighbor dummy. We experiment with alternate definitions of what constitutes a target neighbor and we examine trading over alternative time horizons. We also consider differences in trading in months 7 through 18 versus trading in months 1 through 6 after the M&A is announced. Standard errors, shown in brackets, are clustered at the zip-code- and the year-month-of-an-M&A-announcement level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	# Trades (1)	\$ Trades (2)	# Trades (3)	\$ Trades (4)	# Trades (5)	\$ Trades (6)	# Trades (7)	\$ Trades (8)
Panel A: Neighbors of Different Distances to Target Investors								
	0 to 3 Miles		3 to 7 Miles		7 to 15 Miles		15 to 30 Miles	
<i>Target Neighbor</i>	0.0022*** [0.0007]	0.0021*** [0.0007]	0.0018*** [0.0005]	0.0018*** [0.0005]	0.0014*** [0.0003]	0.0015*** [0.0003]	0.0002 [0.0003]	0.0002 [0.0003]
Investor Controls	YES	YES	YES	YES	YES	YES	YES	YES
Zip Code Controls	YES	YES	YES	YES	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Adj. R ²	1.66%	1.59%	1.66%	1.59%	1.65%	1.59%	1.65%	1.58%
# Obs.	7,578,642	7,578,642	7,558,105	7,558,105	7,485,049	7,485,049	7,336,619	7,336,619
Panel B: Alternative Time Horizons								
	Target Investors				Target Neighbors			
	Months 19 to 30		Months 31 to 42		Months 19 to 30		Months 31 to 42	
<i>Target Investor/ Target Neighbor</i>	0.0178*** [0.0030]	0.0130*** [0.0026]	0.0123*** [0.0035]	0.0107*** [0.0032]	0.0005 [0.0006]	0.0008 [0.0006]	0.0001 [0.0007]	0.0005 [0.0007]
Investor Controls	YES	YES	YES	YES	YES	YES	YES	YES
Zip Code Controls	YES	YES	YES	YES	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Adj. R ²	1.47%	1.39%	1.28%	1.21%	1.47%	1.39%	1.28%	1.21%
# Obs.	5,814,983	5,814,983	3,696,168	3,696,168	5,812,950	5,812,950	3,694,682	3,694,682
Panel C: Trading in Months 7-18 minus Trading in Months 1-6								
	Target Investors				Target Neighbors			
	Stock-Financed M&As		Cash-Financed M&As		Stock-Financed M&As		Cash-Financed M&As	
<i>Target Investor/ Target Neighbor</i>	0.0122*** [0.0038]	0.0118*** [0.0038]	0.0089* [0.0051]	0.0091* [0.0051]	0.0025*** [0.0007]	0.0026 ** [0.0007]	0.0008 [0.0011]	0.0006 [0.0011]
Investor Controls	YES	YES	YES	YES	YES	YES	YES	YES
Zip Code Controls	YES	YES	YES	YES	YES	YES	YES	YES
M&A Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Adj. R ²	1.42%	1.38%	2.06%	1.99%	1.41%	1.37%	2.06%	1.98%
# Obs.	4,892,588	4,892,588	2,283,907	2,283,907	4,890,872	4,890,872	2,283,329	2,283,329