ONLINE APPENDIX TO

“LISTENING IN ON INVESTORS’ CONVERSATIONS”

Online Appendix Figure 1
Online Survey

This figure illustrates the layout of the online survey sent to retail investors.

Instruction - click to view or hide

- Read each of the following 10 articles and score based on how convincing you find the article, how actionable and how well-presented.

- You can change your scores at any time by clicking on the article titles below.

1. SandRidge Energy Has Had Poor Corporate Governance For Years (Not rated)
2. Tyler Technologies Eliminates Big Government Waste And Could Gain 40% (Not rated)
3. Ruger: Profit Off Gun Control Mania And Get Paid A Dividend (Not rated)
4. Jazz Pharmaceuticals: Playing A Sweet Song For Growth Investors (Not rated)
5. Given Recent And Upcoming Catalysts, Microsoft Is Too Cheap At $30 A Share (Not rated)
6. Federal Express Earnings Preview: Restructuring Ahead As Investors Await Catalyst (Not rated)
7. 10 Reasons I Bought This $1.30 Lottery Ticket From The Energy Sector (Not rated)
8. 2 Attractive Apparel Stocks For The Holiday Season (Not rated)
9. 2 Companies Keeping Netflix Below $100 (Not rated)
10. Purchase Noble Before Q4 Ends For Long-Term Gains (Not rated)

< Previous **Work Progress**: You have rated 0 article(s). Next >

SandRidge Energy Has Had Poor Corporate Governance For Years

A shareholder in SandRidge Energy, Inc. (SD) said the Oklahoma oil and natural gas company should find new management, making complaints about various issues including "appalling" corporate governance. We have warned for more than a year about SandRidge's high risk in this area, and its financial statements continue to reflect problematic accounting and board composition, among other things.

TPG-Axon, which holds a 4.5% stake in SandRidge, sent a letter on Nov. 8 to the board outlining offenses ranging from reckless spending to the stock's 76% price decline since its initial public offering in 2007. The activist investor said the board should consider selling SandRidge, ousting CEO Tom Ward, and replacing some directors with more "credible, independent" people chosen after extensive consultation with large shareholders.

SandRidge responded on Nov. 8 that it is always open to constructive engagement with its shareholders. "While our perspectives on various points made in the letter from TPG-Axon differ in many instances, we agree that SandRidge has valuable assets and that we need to focus on improving performance for shareholders," SandRidge said. The board added that it was working with management toward that end.

On the same day SandRidge announced that it had initiated a process to evaluate the sale of its assets in the Permian basin. Mr. Ward said Nov. 9 that the plan was not a reaction to TPG-Axon's letter, according to the media.

Some of SandRidge's board members have relationships that could interfere with their objectivity in addressing such matters. For example, the board's director Daniel Jordan previously served as an executive at SandRidge's predecessor Riata Energy, Inc. Meanwhile, SandRidge investors can only elect around one third of its directors each year, which interferes with their ability to replace those who don't serve shareholder interests.

Warning about such problems as well as many others, we put the company on our risk list in October 2011. In another major red flag, SandRidge's board has approved a number of related party transactions. For example, SandRidge's audit committee chair Everett R. Dobson and Mr. Ward are both minority owners in the Professional Basketball Club, LLC (PBC), which in turn owns the Oklahoma City Thunder, an NBA team based in the company's hometown. In September 2008 they entered into a five year agreement to pay an average annual sponsorship fee of around $3.275 million for advertising and promotional activities related to Thunder.

Mr. Ward obtained the right in 2006 to acquire stakes in wells the company drilled. His program has similarities to the one used by Aubrey McClendon, CEO of Chesapeake Energy Corp., where Mr. Ward had been COO before leaving for SandRidge in 2006. Chesapeake has also had corporate governance issues for years, as we noted in past articles, and the company became a founding sponsor of Thunder in 2008.

SandRidge's financial statements reflected an AGR ® score of 7 in December 2009, indicating higher accounting and governance risk than 93% of comparable companies. Since then the score has risen no higher than a 22, and it was most recently a 2 as of June. In September we added SandRidge to our Investor WatchList, a monthly list of companies with the highest probability of underperformance over the next three to six months.

SandRidge's management presents its finances in the best light possible at the risk of disappointing investors down the line, rather than taking a more conservative stance. For example, SandRidge follows the full cost method of accounting for oil and natural gas activities, rather than the successful efforts method. While both are allowable under Generally Accepted Accounting Principles, under full cost all direct and indirect acquisition, exploration, and development costs are capitalized, while under successful efforts many of these costs are charged to expense as incurred if they do not result in proved reserves. In the short run, using the full cost method favored by Sandridge improves reported earnings. However, under this method capitalized costs eventually become subject to a limit, which the company reached in 2008 and 2009. This triggered large impairment charges on their natural gas and oil properties because although proved reserves were revised upwards in 2008, the deterioration in the price of natural gas and oil that year offset the increase. The situation worsened in 2009, when proved reserves were revised downwards. As of its annual report for the year ended December 2011, SandRidge continued using the full cost method of accounting.

Online Appendix Figure 1. Continued.

Region: North America

Country: United States

Sector: Energy

Industry: Oil / Gas Exploration / Production

Market Cap: $ 3,123.3 mm (Mid Cap)

(click to enlarge)

Energy Sector Overall Ratings Distribution

ESG Grade	Count	Percent
A	7	2%
B	52	14%
C	189	52%
D	82	22%
F	35	10%
Total	365	100%

AGR Rating	Count	Percent
Conservative	136	11%
Average	568	47%
Aggressive	358	30%
Very Aggressive	149	12%
Total	1,211	100%

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.

Business relationship disclosure: The article has been written by a financial reporter at GMI. The reporter has no business relationship with any company whose stock is mentioned in this article. Nobody paid GMI to write this article on his or her behalf.

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1. How do you rate the convincing nature of the article?

Not Convincing ◯ 1 ◯ 2 ◯ 3 ◯ 4 ◯ 5 Very Convincing

Convincing means that the writer of the article understands the topic he/she is writing about and the writer has subject matter expertise. It shows the writer can share pertinent information about the stock, sector, or style of investing.

2. How do you rate the actionable nature of the article?

Not Actionable ◯ 1 ◯ 2 ◯ 3 ◯ 4 ◯ 5 Very Actionable

Actionable means that the writer of the article informed the investors and provided new information about a security or sector to help empower the investors with a better perspective on whether or not they should take a position. The value of the information the writer provides helps inform the audience; making the investors smarter about a particular security.

3. How do you rate the well-presented nature of the article?

Not well-presented ◯ 1 ◯ 2 ◯ 3 ◯ 4 ◯ 5 Very well-presented

Well-presented means that the article is well written; leveraging the right images, charts, data sources, general internet best use practices, laying the case for a stock out logically, easy to understand the thesis, good user experience.

Submit

Online Appendix Table 1
Determinants of an Investment Idea's Attention and Virality: Social Transmission Bias or Efficient Aggregation of Information?

This table presents coefficient estimates from a regression of cumulative DGTW-adjusted stock returns over one week, three months or six months following article publication (while skipping the first two trading days) on characteristics of the corresponding article's content. If multiple articles are published on the same day on a given firm, we compute the average characteristics across articles. All variables are as described in Table 1. We do not report the intercept. *T*-statistics are reported in parentheses and are based on standard errors clustered by day of publication. *, **, and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

	One Week (1)	Three Months (2)	Six Months (3)
Sentiment	0.135**	0.186	0.543**
	(2.53)	(1.04)	(2.05)
Extreme Sentiment	-0.002	-0.011*	-0.021***
	(-1.61)	(-1.88)	(-2.58)
Unusual Sentiment $_{Stock}$	-0.008	-0.215	-0.133
	(-0.12)	(-0.63)	(-0.29)
Unusual Sentiment $_{Author}$	-0.042	0.511	0.480
	(-0.47)	(1.36)	(1.00)
Emotionality	0.004	0.291	0.651**
	(0.83)	(1.56)	(2.56)
Numbers-versus-Text	0.011	0.060*	0.073
	(1.31)	(1.67)	(1.39)
Score $_{Convincing}$	-0.002	0.024*	0.018
	(-0.65)	(1.91)	(1.02)
Score $_{Actionable}$	-0.001	0.004	0.014*
	(-0.37)	(0.71)	(1.90)
Score $_{Well\text{-}Presented}$	0.000	0.002	-0.002
	(0.01)	(0.44)	(-0.03)
Short Score	-0.000	-0.001***	-0.003***
	(-0.59)	(-3.91)	(-5.99)
Long Score	0.000	0.003***	0.006***
	(0.20)	(7.26)	(11.12)
ln (1 + Analyst Coverage)	0.001**	0.003**	0.007***
	(2.26)	(2.10)	(3.66)
Editor Pick	0.007	-0.016	0.000
	(1.39)	(-1.05)	(0.01)
ln (# Words)	0.007	-0.000	0.003
	(0.88)	(-0.06)	(0.49)
ln (1 + # Articles on Same Stock $_{Previous\ Month}$*)*	0.001	0.001	0.006***
	(0.00)	(0.77)	(2.98)
# Obs.	10,751	10,751	10,751
R^2	0.003	0.010	0.022