

ONLINE APPENDIX TO
“LISTENING IN ON INVESTORS’ THOUGHTS AND
CONVERSATIONS”

Hailiang Chen and Byoung-Hyoun Hwang

Fig. OA1
Design of Online Experiment

This figure illustrates the design of the online experiments we use to gauge whether impression-management considerations cause investors to share quantitative articles. The articles in this figure are the articles we use in “Experiment 1” and “Experiment 2” tabulated in Panels A and D of Table 3. We conclude each experiment with some survey questions. We describe our experiments and our survey questions in Sections 4 and 6.3, respectively.

Experiment 1

37%

You will now read **two investment opinion articles** about Tesla. **At the end of each article**, you will be asked whether this is an article you would **share with a very close friend**.
Below is the first investment opinion article:

One half of the participants is asked this question; the other half is asked whether they would share this article with a co-worker.

Tesla's Next Q2: Very Likely To See Another Profitable Quarter

Summary

- Today, Tesla will report the Q2 2020 ER.
- The Company reported last July 2 the vehicle deliveries figures for the second quarter, which amounted to 90,650 units.
- In some surveys, analysts expected orders for around 72,000 vehicles, while Bloomberg analysts forecast around 83,000 vehicles for the second quarter.
- Therefore, as a result of this higher than expected sales figure, along with lower costs (I will explain later), we will most likely see a positive result figure for the second quarter of this year 2020.

Today, **Tesla** (NASDAQ: TSLA) will report the Q2 2020 earnings. After the positive first-quarter earnings reported on April 29, there are high expectations on this ER. This high expectation stems from the fact that, although most analysts initially expected negative results, the perception has changed after the publication , on July 2, by the Company, of the vehicle's deliveries figures for the second quarter, which amounted to 90,650 units. In some surveys , analysts expected orders for around 72,000 vehicles, while Bloomberg analysts forecast around 83,000 vehicles for the second quarter.

The deliveries figure is a number very close to that of sales, hence the importance of this information, and I dare predict that positive results will be published again in the ER today.

Despite the fact that these 90,650 deliveries represent a 4.80% decrease compared to the same four-month period last year, it represents a real triumph for the Company, given the extremely difficult situation of the global health crisis stemming from COVID-19. In addition, Tesla has done much better than most of its competitors in the electric vehicle sector in the last second quarter.

Therefore, as a result of this higher than expected sales figure, along with lower costs (I will explain later), we will most likely see a positive result figure for the second quarter of this year 2020. This second quarter, consecutive with positive results, will make us see a strong upward movement in the stock price in coming days and weeks derived from the euphoria of the markets, and the possibility of completing a full profitable year.

My bullish forecast for Tesla's stock price for the next few days and weeks does not imply that I personally consider the Company to be currently undervalued, but quite the contrary, I think it really is highly overvalued. A market capitalization of almost \$280B is not justified by the low earnings figure presented. I already know that what the market is trading are expectations of future earnings growth, but considering a conservative P/E ratio of 10, Tesla should report positive annual earnings of around \$28B to justify the current market capitalization. And I think we still have a few years to see that profit figure.

But, as we already know from many similar cases, the market generally acts irrationally and remains irrational for a long time. From what I believe, we will see a continuation of the bullish stock price move in the coming days and weeks.

This “quantitative” article recommends investors buy Tesla. The article’s Reliance on Numbers is above the median.

Fig. OA1. Continued.

Revenues increase and expenses reduction = Positive quarterly profits

Auto deliveries:

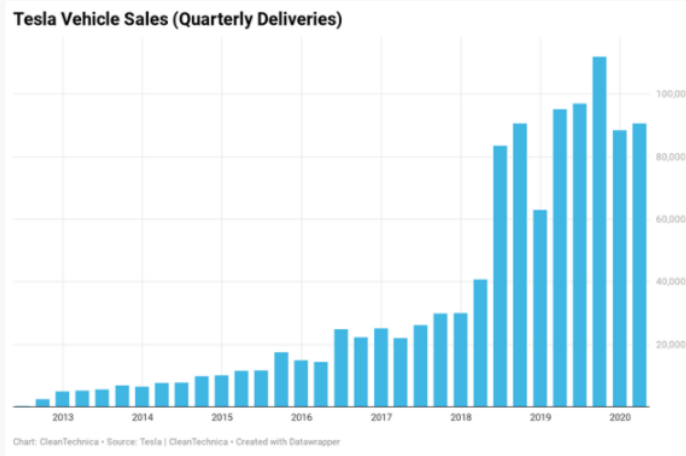
From the company, it was reported on July 2 that more vehicles have been delivered than produced during the second quarter.

Tesla said it produced 82,272 vehicles in the three months ended June 30, including 75,496 Model 3 and Model Y vehicles and only 6,326 of its older, higher priced Model S and Model X vehicles. The company did not say how many electric cars it made at its new Shanghai plant versus its US factory in Fremont, California./p>

Therefore, during the second quarter of this year, sales of vehicles produced in the first quarter will be accounted for.

In the first quarter, Tesla said it manufactured more vehicles than it sold with 102,672 units produced and 88,400 delivered. During the second quarter of 2019, Tesla said it manufactured 87,048 vehicles, including 72,531 Model 3's, and delivered 95,200, including 77,550 Model 3's.

What do these figures tell us? Well, in this second quarter, more revenue is likely to be reported than in the first quarter, as 95,200 vehicles have been shipped, compared to 88,400 in the first quarter, about 6,800 more vehicles, which represents a 7.69% increase. At an average price of approximately \$70,000 between Model 3 and Model Y (best-selling models), we have additional revenues, in this Q2, of approximately \$476M.



Source: Tesla

Operating expenses:

In Q1 of 2020, Tesla spent \$951M on its operating expenses, which are made up of both research and development as well as selling, general and administrative accounts.

Regarding operating costs, it is evident that, because of the COVID-19 health crisis during the second quarter of this year, Tesla's American factories (Fremont, Tesla's battery factory in Nevada, and the solar power production in New York) have been largely closed. This will inevitably result in a considerable reduction in operating costs.

On the other hand, in early April, the Company reported a reduction in wages for the different levels of management. Thus, the salary of its US-based salaried employees was reduced by 30% for vice presidents and superiors, 20% for directors and superiors, and 10% for all other employees. This reduction in the salary burden will mean significant savings for Tesla during the second quarter of this year, 2020.

Wages are reported to return to normal by the end of the second quarter.

If we assume a reduction of 10% with respect to the operating costs of the first quarter, we will obtain a savings of \$95.1M.

Fig. OA1. Continued.

Regulatory credits

For years, Tesla Inc. has built up revenue selling credits to other automakers who need to offset sales of polluting vehicles to American consumers. This type of transaction has been largely hidden in secret, until now.

Therefore, General Motors (NYSE: GM) and Fiat (NYSE: FCAU) have claimed to have agreed to buy Tesla credits during the first quarter of this year. In total and during the Q1, the sales of a total of \$354M in regulatory credits were reported by Tesla. This represented an increase of \$200M compared to the previous quarter. This large increase seems to come from the agreement between Fiat and Tesla, and by which Fiat basically financed the construction of the German factory Tesla Gigafactory 4.

Therefore, it is assumed that, for the second quarter, a reduction in regulatory credits will be reported, which again would be around \$150M; that is, the average recorded in the previous quarters.

In this sense, we estimate a reduction, compared to Q1, of approximately \$200M in regulatory credits revenues during Q2.

Deferred revenue for FSD (Full Self Driving)

Here, we find another set of revenue that, in my opinion, can positively affect the results of the second quarter. I mean deferred revenue.

In this sense, we must know that a company cannot count the total amount of revenue of a product or system until it has been completely delivered. Therefore, according to Tesla CFO Zachary Kirkhorn, on the Q1 2020 Tesla Earnings Call , Tesla has only recognized about half of the revenue it has taken in for the Full Self Driving (FSD).

He stated that, as of the date of presentation of the results, deferred revenue continued to grow and already represented an amount greater than \$600M. Therefore, as Tesla incorporates new elements into its FSD, it may account part of these deferred revenues.

This \$600M is likely to correspond to the FSD system since, as can be seen from the Company's first quarter results, the Company's total deferred revenue reached \$1.186B.

Last April, Tesla reported that cars with the FSD feature installed could react to traffic lights and stop signs.

The question here is: How much of the total deferred revenue (\$600M) will now be accounting after implementing the improvements to the FSD system?

To answer this, we can take as an example of how Tesla used its Smart Summon system in the third quarter of last year 2019 to impute \$30M of deferred revenue.

If we consider that, for Tesla, the FSD system has the same value as the Smart Summon, then we can estimate that they will now recognize \$30M of deferred revenue from the total of \$600M that have not yet been imputed. This would imply 5% of the total deferred revenue from the FSD system, a very reasonable amount to value the new traffic light and stop sign recognition system.

Conclusion

In accordance with the foregoing, with respect to the results of the first quarter, I expect an increase in operating income derived from the sale of vehicles of approximately \$476M, a reduction in operating costs derived from the partial closure of factories during confinement caused for COVID-19, and a salary reduction of approximately \$95.1M, and lastly, a reduction in the revenues derived from lower regulatory credits in the Q2 of approximately \$200M, and finally, an increase in deferred revenue of \$30M:

Earnings increase expected in Q2 compared to Q1 quarter 2020 = \$476M + \$95.1M - \$200M + \$30M = \$401.1M.

Therefore, my estimate assumes a net positive profit for the second quarter of this year 2020 of \$417.1M (first quarter profit + \$401.1M). This increase in net earnings is likely to trigger a strong bullish reaction to the stock price in the coming days and weeks.

✳ Is this an article you would share with a very close friend?



Yes



No

Again, one half of the participants is asked this question; the other half is asked whether they would share this article with a co-worker.

Next

Fig. OA1. Continued.

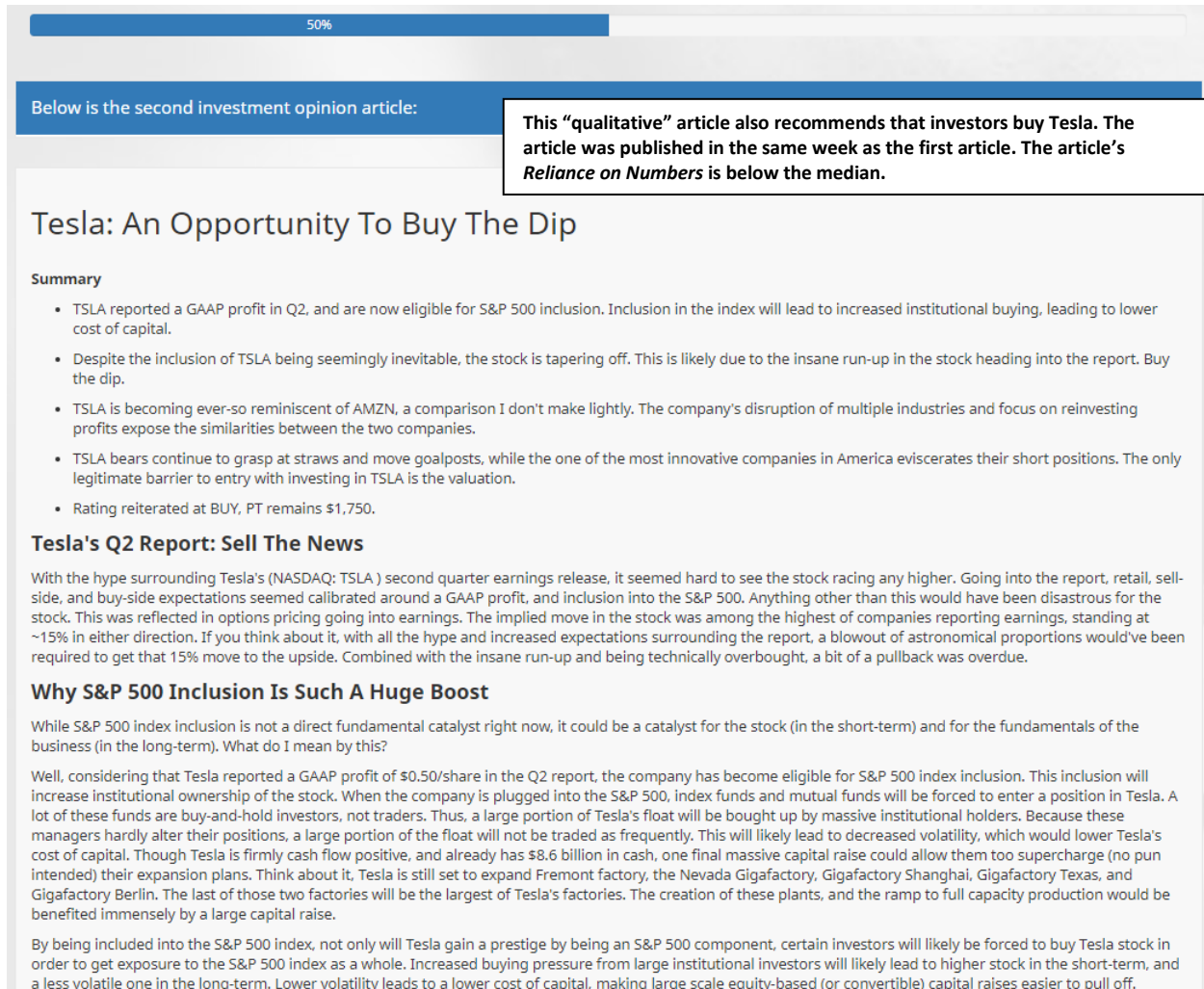


Fig. OA1. Continued.

Tesla Is A Combination of Apple and Amazon

To be clear, at the beginning of 2018, I was a bear on Tesla stock. In my view, anybody who compared Tesla to Apple (NASDAQ: AAPL) or Amazon (NASDAQ: AMZN) was insane. But now, with Tesla's execution on their fundamentals, my mind has been changed. I believe Tesla combines certain attributes of both Amazon and Apple. I don't say this lightly.

Tesla is very reminiscent of Apple in one key respect:

- disruptive new technology
- strong, loyal brand
- sleek, simple product design

Battery electric vehicles are the new disruptive technology, as smartphones were the new disruptive technology. That being said, smartphones were around in before Apple entered the market. The same is true with BEVs. When Apple unveiled the iPhone, they disrupted the smartphone market. When Tesla launched a practical, attractive, and functional BEV, they disrupted the market. Both companies are on the cutting-edge of innovation (or at least Tesla is nowadays as Apple's innovation slows). Tesla leads in battery chemistry in both efficiency and cost, which helps reduce the COGS (cost of goods sold) and increase the range (i.e. the functionality) of the product. Tesla's blend of functionality with style is something every other 'competing' automaker has failed to do. In this was, Teslas are disruptive technologies.

Second of all, Tesla has a strong brand. Think about it. Do people say they intend on buying an electric car, or do they plan on buying a Tesla? The latter right? Even the bears admit Tesla fans are devoted to the company, with a lot of bears believing Tesla is a cult. Tesla's brand is second to none, other than maybe Apple itself. A brand as strong as Tesla's, while an intangible asset, is an asset nonetheless.

Third, Tesla's products are simple, yet sleek. The same can be said about Apple's products, the iPhone in particular. One example of this is Tesla's interior. Try comparing the interior of a mostly buttonless Model 3, versus the complex overcrowded interior of a traditional luxury vehicle. Sometimes, simplicity is best, as we have seen with Apple.

With regards to Tesla's comparison with Amazon, the similarities are a little fewer and further between. The biggest one is scale: grow big fast. Amazon's multi-decade focus on reinvesting profits into scaling the business model has paid off in a huge way. Amazon famously expanded from a digital bookstore to a digital empire. Amazon's business has been a capital intense business, as has Tesla's. CEO Elon Musk confirmed on the last earnings call that the company will be barely profitable while they pass on profits to the customer (likely through price cuts and whatnot) to scale up market share. This is a very similar strategy to Amazon's in terms of reinvesting profits to grow market presence. The other thing that Tesla does (and will continue to do), is reduce prices on their vehicles. While bears continue to misinterpret this as a lack of demand for their product, it is quite the opposite. As Tesla becomes more efficient at producing vehicles, they find internal cost savings. 'Normal' companies would use this opportunity to expand their margin profile and improve profitability. Tesla uses this opportunity to lower pricing, passing on the margin to consumers. This lower pricing leads to increased demand, improving Tesla's market share dynamics. We have seen AWS (Amazon's cloud division) employ a similar strategy in growing its customer base and revenue. The parallels are striking.



Source: Tesla

Fig. OA1. Continued.

The Bears

As of right now, short interest in Tesla's stock stands at ~7.5% of the outstanding stock. As the stock sprints higher, the value of these short positions balloons, leading too a likely short squeeze. We have seen this play out over the last few months. The problem is, shorts continue to move the goalposts on the stock, something that I (ironically enough) claimed the bulls were doing when I was bearish myself. The argument has evolved:

- BEVs aren't feasible
- Tesla only makes high-priced cars
- Tesla can't produce a mass-market car
- There is no demand for said mass-market vehicle
- Tesla can't make mass-market cars *profitably*
- The profits Tesla has been making are somehow ineligible or manipulated
- (future bear case): the eligible profits Tesla makes can't justify the valuation

One by one, Tesla has dismantled the bear case surrounding the stock, and the bears don't like it. So, rather than admitting they made the wrong call on the stock, they move the goalposts on it. Tesla's practice of just executing on their business model has done significant damage to the Tesla bears. Eventually, as Tesla continues to show profitability, bears will make the argument (the only valid one they have in my view) that Tesla's valuation is stretched. The problem is, the compare Tesla to an automaker rather than Amazon. As I have already talked about, Tesla has multiple striking parallels with the Amazon business model. Traditional analysis of Amazon versus other brick-and-mortar retailers would yield a far lower stock price than what Amazon trades at currently. The bears need to understand, Tesla is a disruptive force in the market that cannot be competed with, at least not yet. In addition, Tesla has other growth vertical in both energy and autonomy. Trying to value the stock on earnings, when management explicitly says they have no intention on earning more than the bare minimum, is not wise. Revenue is a better metric.

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The clock is ticking on bears and disbelievers in the Tesla story. The company is executing, they are going to be admitted into the S&P 500, their business parallels big tech companies like Apple and Amazon, and bears continually move the goalposts. At a time when Tesla is called one of the greatest bubbles in the market, I would consider it the exact opposite. The recent dip in the stock is an opportunity to buy.

★ Is this an article you would share with a very close friend?

✓
Yes

✗
No

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Next

Fig. OA1. Continued.

Experiment 2

14%

* Please think about a situation where **you felt you did not look as knowledgeable in the eyes of your co-workers** as you would have liked. Briefly describe the situation in the box below.

Minimum of two sentences

One half of the participants is given this task; the other half is given the following task: "Please think about what a "perfect" office would look like to you. Briefly describe this "perfect" office in the box below."

Next

28%

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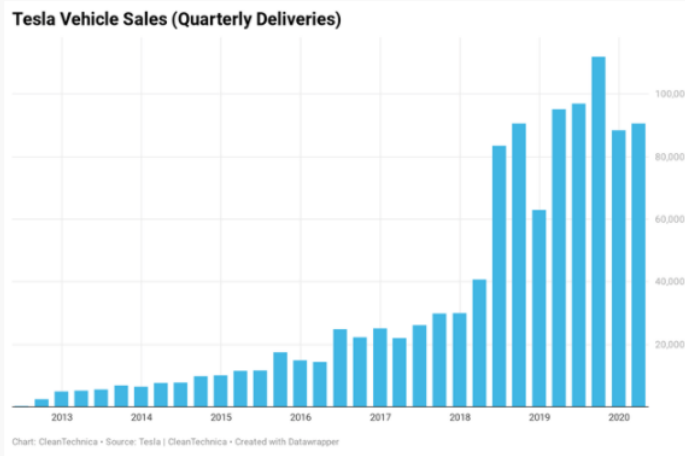
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Earnings increase expected in Q2 compared to Q1 quarter 2020 = \$476M + \$95.1M - \$200M + \$30M = \$401.1M.

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Yes



No

Next

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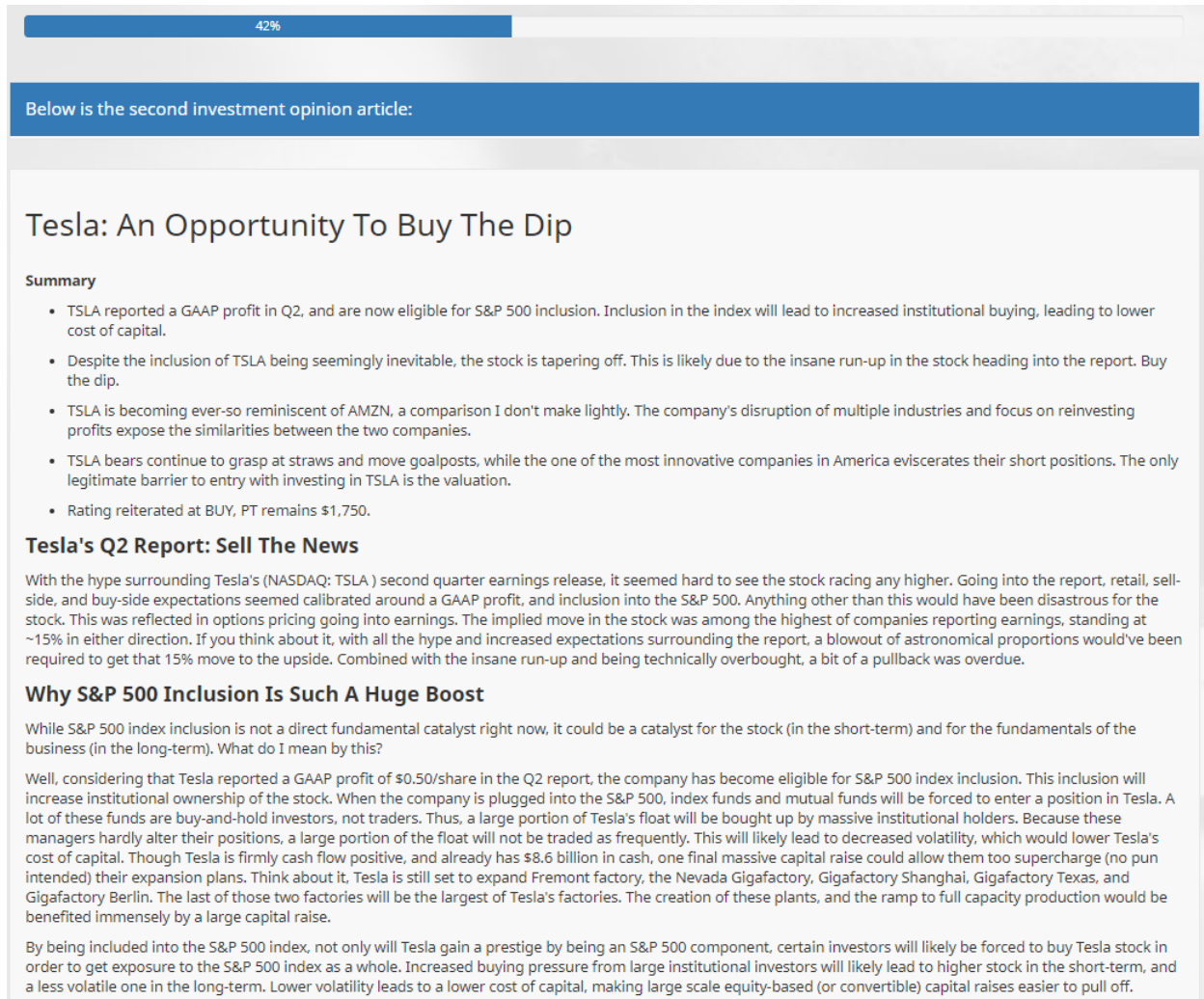


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✖ Is this an article you would share with a co-worker?

✓
Yes

⊘
No

Next

Fig. OA1. Continued.

Survey Questions Asked to All Participants at the End of Each Experiment:

62%

Over the past 12 months, did a co-worker, friend or family member mention a stock to you that they thought you might be interested in buying?

✓
Yes

⊘
No

If a participant reports "Yes" to the question above, the participant is presented with two more questions:

Next

75%

How thoroughly do you think that person researched that stock before mentioning it to you?

| | | | | |
|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|
| 1 Rather casually | 2 | 3 | 4 | 5 Rather thoroughly |
| <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

Did you end up buying the stock?

✓
Yes

⊘
No

If a participant reports "Yes" to the question above, the participant is presented with one more question:

Next

87%

What was or has been your overall return since you bought the stock?
If you are not sure, please answer "don't know."

Choose one of the following answers

Please choose...

Please choose...

Less than -20%
Between -20% and -10.01%
Between -10% and -0.01%
between 0% and +10%
Between +10.01% and +20%
Greater than +20%
Don't know

Submit

Fig. OA2
Articles Used in Online Experiments “Experiment A1” and “Experiment A2”

This figure displays the two articles we use in “Experiment A1” and “Experiment A2” tabulated in Panels B, C, E and F of Table 3. We describe our experiments in Section 4.

First Article:

Bullish On Delta: 44% Upside Based On 2022 EPS Above Consensus

Jan. 7, 2021 1:52 PM by: Pendulum

Summary

- Christmas air travel outperformed recent trends, despite the expanding COVID-19 pandemic and I am optimistic about the vaccine.
- I expect that Delta will rebound by 2022 to the operating levels it achieved in 2017.
- My 2022E EPS estimate is \$4.85, compared to \$4.05 Wall Street Consensus.
- I bought shares recently based on Delta CEO's comments about being cash flow positive by Spring 2021.

I am bullish on the U.S. airlines going into 2021 and made seven predictions here: JETS: 35% Upside In 2021, Airline Recovery Accelerating.

Coming into the year I was long Southwest (LUV) and recently purchased shares of Delta (DAL). My prediction #6 was that Delta, United Airlines (NASDAQ: UAL) and American Airlines (NASDAQ: AAL) will outperform Southwest in 2021.

The catalyst for me to go long Delta was the comments by CEO Ed Bastian in a memo to employees: Delta Air Lines CEO expects positive cash flow by spring .

Investment Thesis on Delta

1. **Air travel is rebounding** - Passenger throughput at TSA checkpoints over Christmas was much higher than over Thanksgiving. The vaccine rollout will accelerate air travel.
2. **Delta is leading the pack** - Southwest is almost entirely a domestic airline. Delta, United and American have a higher mix of international travel. They also cater to business travelers. Of these three, Delta the best run airline. Delta is ahead of the other two in terms of returning to positive cash flow. This is an indication of its operating strength.
3. **Better unit economics** - Delta cut massive costs during the crisis. Some costs will come back as it ramps-up. However, the airline industry is known for having high fixed costs. Delta retired a lot of old airplanes and rationalized the number of models in its fleet. I suspect that its cost-conscious approach found savings that were overlooked during the good times. Right now, Delta's financials are messy due depressed revenue. I expect improved CASM (cost per available seat mile) when Delta returns to pre-COVID revenue levels.
4. **Wall Street 2022 EPS estimates too low** - I expect 2022 EPS of \$4.85 compared to consensus estimates of \$4.05 driven by higher revenue and better incremental margin.
5. **Compelling valuation on 2022 earnings** - My price target is \$58.24, which assumes a 12x P/E on my 2022E EPS estimate.
6. **Key Catalyst: Line of Site to Positive Cash Flow** - Delta's CEO said positive cash flow is coming in the "spring". This is just a few months away and a major milestone for Delta.

Fig. OA2. Continued.



Data by YCharts

Recovery Outlook

My thesis on Delta is that its 2022 will reflect a rebound to the levels it achieved in 2017 levels. It will take more time to achieve 2019 metrics, but there is upside in the stock even if Delta's 2022 results are in-line with 2017.

| | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E | 2022E Compared To: | | |
|-------------------------------------|---------|---------|---------|---------|---------|---------|--------------------|-------|--------|
| | | | | | | | 2017 | 2018 | 2019 |
| RPM (M) | 217,713 | 225,243 | 237,680 | 75,197 | 148,684 | 207,554 | -4.7% | -7.9% | -12.7% |
| ASM (M) | 254,325 | 263,365 | 275,380 | 133,124 | 198,854 | 248,567 | -2.3% | -5.6% | -9.7% |
| Load Factor | 85.6% | 85.5% | 86.3% | 56.5% | 74.8% | 83.5% | -2.5% | -2.4% | -3.3% |
| CASM (cents) | \$13.93 | \$14.89 | \$14.66 | \$18.50 | \$13.97 | \$13.93 | 0.0% | -6.5% | -5.0% |
| RPM = Revenue Passenger Miles | | | | | | | | | |
| ASM = Available Seat Miles | | | | | | | | | |
| CASM = Cost Per Available Seat Mile | | | | | | | | | |

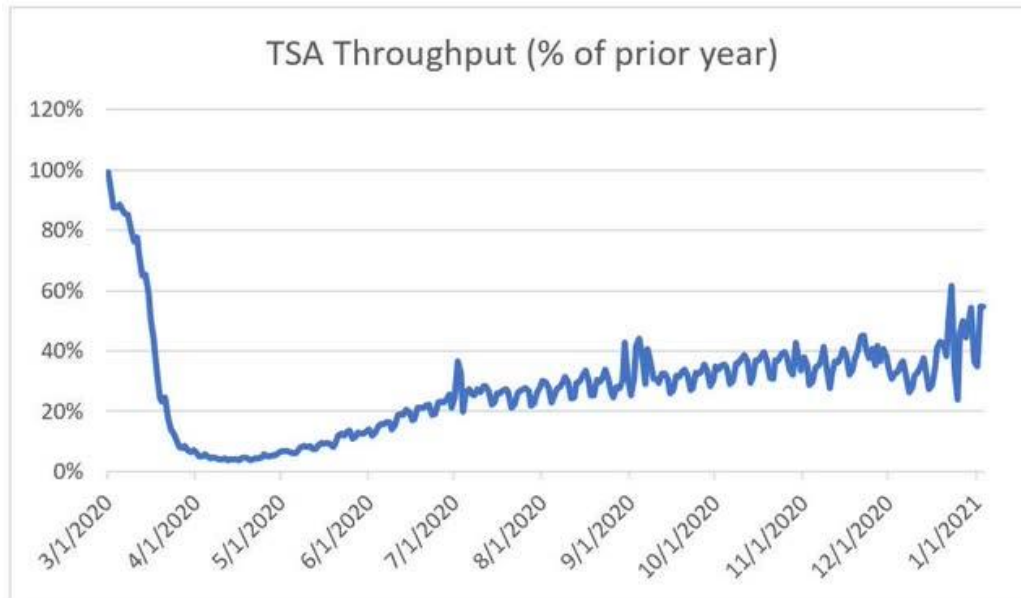
(Source: Author's estimates)

My rationale for the rebound is as follows:

1. Pent-up demand for leisure travel. Most of air travel is leisure. Zoom is not going to replace visiting family for holidays and going on beach vacations. Once people are vaccinated, expect a rush for the airports. There is going to be a lot of demand for the 2021 holiday season which is a good set-up for 2022.
2. Business travel is especially dormant right now. Zoom will impact the way people do business in the future, but there will be a lot of "catch-up" business travel once the vaccinations start to roll out. Sales people will visit customers they haven't seen in over a year.
3. I expect immunity passports to be rolled out in 2021. It will take some getting used to, but this will be a tailwind going into 2022.

During the Christmas period, TSA throughput increased to 50% of prior year levels. This is the highest its been in the COVID-19 era, and a noticeable uptick from Thanksgiving when it was approximately 40%.

Fig. OA2. Continued.



(Source: TSA)

Furthermore, the 2020 Christmas season represented 21.2% of 4Q, compared to 18.9% in 2019. It was a good end to the quarter.

| | Dec 15-31 | 4Q | % |
|------|------------|-------------|-------|
| 2019 | 39,956,944 | 211,103,512 | 18.9% |
| 2020 | 16,429,486 | 77,541,248 | 21.2% |

(Source: TSA)

Financial Model: \$4.85 2022E EPS

Based on these assumptions, my estimates are as follows:

| | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|-----------------|-----------------|-----------------|------------------|-----------------|-----------------|
| Revenue | \$41,138 | \$44,438 | \$47,007 | \$16,774 | \$28,996 | \$39,376 |
| Adj. Operating Expenses | (\$35,431) | (\$39,227) | (\$40,373) | (\$24,628) | (\$27,772) | (\$34,614) |
| Adj. Operating Income | \$5,707 | \$5,211 | \$6,634 | (\$7,854) | \$1,224 | \$4,762 |
| Adj. Non-Operating Expenses | (\$457) | (\$98) | (\$437) | (\$781) | (\$945) | (\$760) |
| Adj. Profit Before Tax | \$5,250 | \$5,113 | \$6,197 | (\$8,635) | \$279 | \$4,002 |
| Adj. Tax | (\$1,809) | (\$1,198) | (\$1,423) | \$1,948 | (\$298) | (\$920) |
| Adj. Net Income | \$3,441 | \$3,915 | \$4,774 | (\$6,687) | (\$19) | \$3,082 |
| Adj. EPS | \$4.76 | \$5.65 | \$7.31 | (\$10.52) | (\$0.03) | \$4.85 |
| <i>\$ in millions</i> | | | | | | |
| <i>Adjusted for non-recurring items</i> | | | | | | |

(Source: Author's estimates)

I am more bullish on 2021 and 2022 than consensus Wall Street estimates. For 2022, my revenue estimate is 4% above the Wall Street Consensus. My 2022 EPS estimate is 20% above the consensus.

Fig. OA2. Continued.

| | Revenue | | EPS | |
|-----------------------|----------|----------|----------|--------|
| | 2021E | 2022E | 2021E | 2022E |
| Author's Estimates | \$28,996 | \$39,376 | (\$0.03) | \$4.85 |
| Wall Street Consensus | \$27,390 | \$37,860 | (\$0.47) | \$4.05 |
| Difference | 5.9% | 4.0% | NM | 19.8% |

(Source: Author's estimates)

In the current environment, incremental revenue has a large impact on the bottom line. Load factors are very low. Every incremental passenger is critical to profitability. My above-consensus revenue estimate results in incremental profitability and higher EPS. Also, my estimates for Cost Per Available Seat Mile (CASM) assume that 2022 is in-line with 2017, as explained above. Wall Street analysts may be modelling in a higher CASM, which results in lower profitability.

Here is a look at incremental revenue and impact on profitability.

| | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|-----------------------------------|----------|----------|----------|------------|----------|----------|
| Revenue | \$41,138 | \$44,438 | \$47,007 | \$16,774 | \$28,996 | \$39,376 |
| Adj. Operating Income | \$5,707 | \$5,211 | \$6,634 | (\$7,854) | \$1,224 | \$4,762 |
| % of Revenue | 13.9% | 11.7% | 14.1% | -46.8% | 4.2% | 12.1% |
| Incremental Revenue | | \$3,300 | \$2,569 | (\$30,233) | \$12,222 | \$10,380 |
| Incremental Adj. Operating Income | | (\$496) | \$1,423 | (\$14,488) | \$9,078 | \$3,538 |
| % of Revenue | | -15.0% | 55.4% | 47.9% | 74.3% | 34.1% |

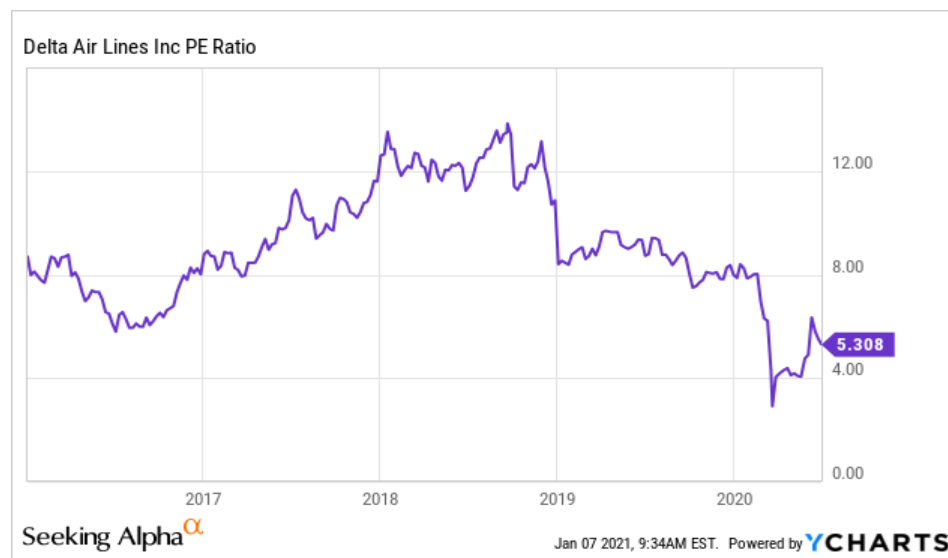
(Source: Author's estimates)

Price Target: \$58.24, 44% upside

My valuation methodology is based on the P/E multiples of the period prior to COVID-19. Delta reached a 12x P/E in 2018.

I expect its P/E multiples will be high during the rebound phase from COVID-19 as it experiences rapid earnings growth. Then, it will experience multiple compression as the cycle matures and the growth rate moderates.

My price target is \$58.24, which is based on 12x 2022E EPS of \$4.85. This is 44.2% *upside* to the current share price.



Data by YCharts

Fig. OA2. Continued.

Risks

1. **New COVID-19 variants.** We don't know a lot about the new UK variant or the new South Africa variant, but the early reporting is worrying (see here). If these variants, or future variants, render the COVID-19 vaccines less effective, there could be a slower return to pre-pandemic air travel levels.
2. **High Debt.** Delta took on a lot of debt during the pandemic. I am encouraged that it sees a path to cash flow breakeven in mid-2021 and will start paying down debt. However, this debt load presents risks, especially if the COVID-19 slowdown lasts longer than expected. Furthermore, it may depress the P/E multiple.

Conclusions

Delta is going to report earnings in a few weeks. I expect a more positive tone from management. I am encouraged by the Christmas travel season. It will be interesting to see the carry-over into January.

Delta's CEO already announced that he expects positive cash flow in mid-2021. More color about this would be positive for investors.

I am bullish on the continued recovery for Delta. 2022 consensus estimates are too low. I expect 2022 will look a lot like 2017. If this plays out, Delta has 44% upside potential.

Second Article:

It's Disappointing Delta Extended Its Middle Seat Policy, But I Remain Bullish With A \$58 Price Target

Feb. 9, 2021 10:01 AM by: Pendulum

Summary

- Delta is the last U.S. airline to block the middle seat.
- It just extended this policy through April, which indicates demand may be weaker than management suggested a month ago.
- However, a 1-month extension is shorter than prior extensions and Delta may make the decision about unblocking the middle seat in March.
- This is an incremental negative for Delta, but I am still bullish and remain long the stock.
- Delta's stock has rallied to the highest level since last March, despite the lull in air travel since the December holidays. Investors are bullish on a recovery for airlines in 2021.

Delta (NYSE: DAL) just announced that it extended its policy of blocking the middle seat. It had blocked the middle seat through March and is now extending the policy through April.

The decision to unblock the middle seat was a potential catalyst that I discussed in my previous article about Delta:

- Bullish On Delta: Unblocking Middle Seat Next Catalyst To 46% Upside

The middle seat decision did not play out as fast as I expected. I now expect it to come in March and I remain bullish on the stock with a \$58 price target.

Why the Middle Seat Decision Matters

On the last earnings call, CEO Ed Bastian said :

*"...when the **demand returns**, which is that next inflection point that will inform our decisions around what to do with the middle seat." (emphasis added by author)*

Delta blocked the middle seat almost a year ago for COVID-19 social distancing reasons. Early in the pandemic, there were questions about the transmission of COVID-19 in airplanes where it is impossible to maintain 6-feet of distance. Blocking the middle seat was a way to reduce the chances of COVID-19 transmission in Delta's aircraft.

In January, however, Ed Bastian framed the middle seat decision within the context of "demand return[ing]" as opposed to safety. After almost a year of the pandemic, the risk of COVID-19 transmission in aircraft is perceived to be low.

In fact, other airlines have already unblocked the middle seat. Alaska Airlines (NYSE: ALK) started unblocking the middle seat in January.

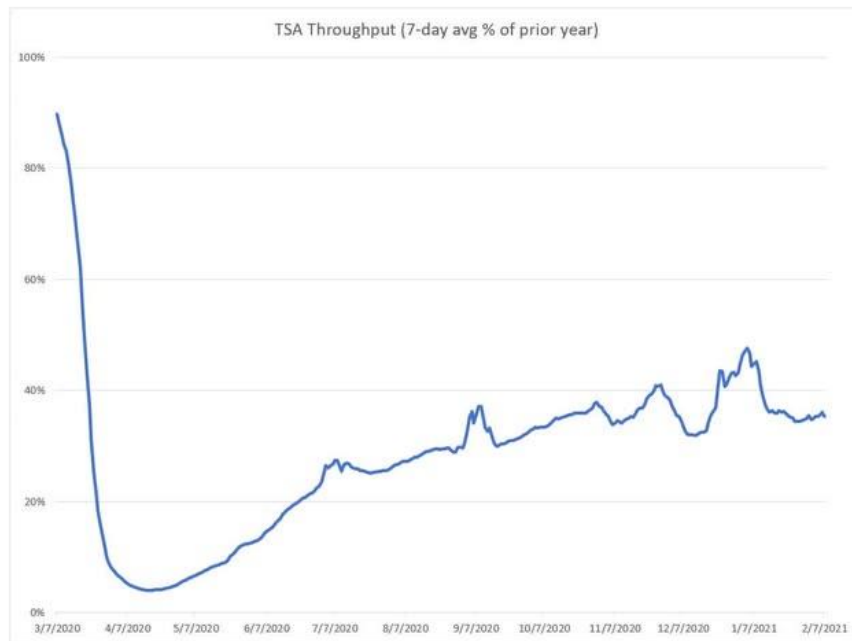
So, the middle seat decision for Delta is likely a barometer of customer demand, more than a COVID-19 safety decision.

Air Travel Trends

Delta was the first major airline to report 4Q 2020 earnings in January. It was more optimistic on its last earnings call than peers United Airlines (UAL) and American Airlines (AAL), see: JETS Update: Conservative Vs. Optimistic Predictions For Air Travel Rebound.

It's possible that some of Delta's optimism was driven by the hangover from the uptick in air travel during the December holidays. Air travel has been in a lull since then, which may have impacted the tone of the other airlines that reported earnings later.

Fig. OA2. Continued.



(Source: TSA)

Delta's Middle Seat Policy Update

On February 8, Delta announced its updated policy [here](#) .

The downside for investors is that the decision suggests that demand is not strong enough to unblock the middle seat on March 30. However, there is a possible silver lining. Delta is only extending the policy for 1-month, which is much shorter than its prior extensions. This suggests that we are getting closer to the point where demand is strong enough to warrant unblocking the middle seat.

Although I am disappointed by the appearance demand is not there right now, I am not surprised considering the TSA throughput trends. I would be a lot more concerned if the extension was for longer than 1-month.

Other Indicators from Delta

On January 25, Delta announced that it is bringing back 400 pilots . For context, Delta has about 12,000 pilots. John Laughter, senior vice president of flight operations, said in a memo announcing this decision:

*"As we looked at ways to better position ourselves to support the projected recovery, we saw an opportunity to build back additional pilot staffing in **advance of summer 2022** by bringing 400 affected pilots back to active flying status by this summer ... **This is well ahead of when we originally estimated we would be able to convert pilots back to full flying status** and is possible because of the PSP aid and available training capacity starting in March and April."* (emphasis added by Author)

Recalling the pilots may be longer-term planning, but Delta's CEO has been bullish on the summer of 2021 too.

What Does This Mean For Delta's Stock?

Delta's stock price has been rallying, despite the lull in air travel since the December holidays. In fact, it is trading at the highest level since last March.

The decision to delay unblocking the middle seat means that the catalyst that I expected in February will be pushed out another month, at least.

Fig. OA2. Continued.



Data by YCharts

With this update, the following are the key upcoming catalysts for Delta's stock:

1. March - I think that Delta will finally announce that it is unblocking the middle seat starting in May.
2. April - Delta will release 1Q earnings. So far, 1Q air travel has been soft. It will be interesting to see what happens in March as more people are vaccinated and its spring break season. Delta guided to cash flow breakeven by the spring, so the guidance on the 1Q call in April will indicate if this is still on track.

Conclusion

I am long Delta and have a 1-year price target of \$58. The news about the middle seat means that I may need to wait a 1-month longer for the next catalyst to play out.

If Delta's stock price drops on this news, it may be a good entry point before air travel, hopefully, picks up in the spring and Delta reaches cash flow breakeven.

My basic thesis is that Delta is better positioned than American Airlines and United Airlines. It executed better pre-pandemic and it will likely reach cash flow breakeven before the other two. This indicates that Delta has advantages in terms of cost structure and network. The delay about unblocking the middle seat doesn't change my thesis.

Fig. OA3
Online Survey to Gauge the Validity of the *Presentation* Variable

This figure illustrates the design of the online survey we use to gauge the validity of our *Presentation* variable. Our server-log data contain scores that SA editors assigned internally to each article based on how “actionable,” “convincing,” or “well-presented” they perceived the article to be. Scores range from 1 through 5 with 1 being the lowest and 5 being the highest.¹ These ratings are not displayed on the SA website. *Presentation* is the sum of these three scores. We design an online survey to gauge to what degree retail investors agree with the ratings assigned by SA editors. We select a random sample of 830 articles (5% of our total sample) and have them re-rated by 249 retail investors. We recruit retail investors through Prolific (<https://prolific.ac>). We require that participants’ primary language be “English” and that they reply “Yes” to the following two questions: (1) “Have you ever made investments (either personally or through your employment) in the common stock or shares of a company?” (2) “Have you invested in any of the following types of investment in the past? – Stock Market.” We first show each survey participant SA’s explanations of what it means for an article to be considered “convincing,” “actionable,” or “well-presented.” We then show each survey participant ten SA articles. After reading each article, each participant is asked to assign their own scores. As survey participants enter their own scores, they are reminded of SA’s explanations of what it means for an article to be considered “convincing,” “actionable,” or “well-presented.” Each article is rated by three participants. For each rated article, we take the average across the three individual scores. We find that the Pearson correlation coefficient between our *Presentation* variable and the presentation score constructed across our survey participants is 0.48.

¹ SA’s explanation of their scores to us is as follows: “*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. *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. *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.”

Fig. OA3. Continued.

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.

Fig. OA3. 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 | AGR Rating | Count | Percent |
|-----------|-------|---------|--------------|-------|---------|
| A | 7 | 2% | Conservative | 136 | 11% |
| B | 52 | 14% | Average | 568 | 47% |
| C | 189 | 52% | Aggressive | 358 | 30% |
| D | 82 | 22% | Very | 149 | 12% |
| F | 35 | 10% | Aggressive | | |
| Total | 365 | 100% | 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.

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

Table OA1
Correlation Matrix

In this table we present a Pearson correlation coefficient matrix of the independent variables included in regression equations (1) and (2). Numbers in bold denote correlation coefficients that are statistically significant at the 5% level.

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|
| (1) <i>Reliance on Numbers</i> | 1.00 | | | | | | | |
| (2) <i>Length</i> | -0.06 | 0.04 | 1.00 | | | | | |
| (3) <i>Editors' Pick</i> | 0.17 | 0.04 | 0.26 | 1.00 | | | | |
| (4) <i>Presentation</i> | 0.11 | 0.02 | 0.33 | 0.65 | 1.00 | | | |
| (5) <i>Long Score</i> | -0.04 | -0.02 | 0.02 | -0.02 | 0.00 | 1.00 | | |
| (6) <i>Short Score</i> | -0.10 | -0.01 | 0.07 | -0.01 | 0.00 | 0.31 | 1.00 | |
| (7) <i>ln (1 + Analyst Coverage)</i> | 0.03 | 0.01 | -0.04 | -0.05 | -0.07 | 0.06 | 0.02 | 1.00 |
| (8) <i>ln (1 + DJNS Coverage)</i> | -0.07 | -0.03 | 0.00 | -0.06 | -0.03 | 0.07 | 0.11 | 0.16 |

Table OA2.1
The Consumption and Sharing of Stock-Opinion Articles
- Univariate Analysis

This table mimics Table 2, but considers (1) the binary relationship between *Reliance on Numbers* and the natural logarithm of one plus the number of times SA users scroll to the bottom of an article and (2) the binary relationship between *Reliance on Numbers* and the natural logarithm of one plus the number of times an article is shared via email.

| | What Makes an Article More Likely to be ... | | | |
|--------------------------------|---|----------------------|-------------------|---------------------|
| | Read-to-End? | | Shared? | |
| | (1) | (2) | (3) | (4) |
| <i>Reliance on Numbers</i> | -1.296*** (-3.41) | -0.972*** (-5.47) | 0.476** (2.26) | 1.232*** (4.65) |
| <i>ln (1 + # Page Views)</i> | | 0.987*** (282.11) | | |
| <i>ln (1 + # Read-to-Ends)</i> | | | | 0.583*** (64.47) |
| # Obs. | 16,446 | 16,446 | 16,446 | 16,446 |
| Adj. R^2 | 0.379 | 0.938 | 0.293 | 0.510 |

Table OA2.2
The Consumption and Sharing of Stock-Opinion Articles
- Controlling for Firm Characteristics

This table mimics Table 2, but, instead of including *Long Score* and *Short Score*, we now explicitly account for a stock's past one-month stock return, previous month's volatility, natural logarithm of previous month's turnover and natural logarithm of previous month's market capitalization.

| | What Makes an Article More Likely to be ... | | | |
|---|---|----------------------|----------------------|----------------------|
| | Read-to-End? | | Shared? | |
| | (1) | (2) | (3) | (4) |
| <i>Reliance on Numbers</i> | -1.258*** (-5.85) | -1.073*** (-2.97) | 1.662*** (5.30) | 1.053*** (4.88) |
| <i>Length</i> | -0.206*** (-27.80) | 0.016 (0.81) | 0.382*** (20.53) | 0.391*** (18.90) |
| <i>Editors' Pick</i> | -0.112*** (-10.25) | 0.278*** (9.39) | 0.289*** (11.76) | 0.446*** (14.64) |
| <i>Presentation</i> | 0.003 (0.71) | 0.036*** (3.44) | 0.017* (1.83) | 0.038*** (3.38) |
| <i>Previous Month's Stock Return</i> | -0.088*** (-3.71) | -0.415*** (-7.83) | 0.008 (0.18) | -0.227*** (-4.09) |
| <i>Previous Month's Stock Return Volatility</i> | 0.061** (2.17) | 0.557*** (5.48) | -0.339*** (-4.14) | -0.023 (-0.33) |
| <i>Previous Month's Share Turnover</i> | -0.002 (-0.86) | 0.182*** (23.62) | -0.041*** (-5.95) | 0.063*** (7.91) |
| <i>Previous Month's Market Capitalization</i> | 0.005*** (4.25) | 0.130*** (28.78) | 0.012*** (3.33) | 0.086*** (19.05) |
| <i>ln (1 + Analyst Coverage)</i> | 0.004 (1.53) | -0.042*** (-6.09) | -0.029*** (-5.51) | -0.053*** (-8.76) |
| <i>ln (1 + DJNS Coverage)</i> | -0.008*** (-5.10) | -0.031*** (-6.01) | -0.001 (-0.20) | -0.019*** (-3.59) |
| <i>ln (1 + # Page Views)</i> | 1.005*** (259.95) | | | |
| <i>ln (1 + # Read-to-Ends)</i> | | | 0.567*** (64.45) | |
| # Obs. | 16,446 | 16,446 | 16,446 | 16,446 |
| Adj. R^2 | 0.945 | 0.451 | 0.546 | 0.364 |

Table OA2.3
The Consumption and Sharing of Stock-Opinion Articles
- Without Author-Fixed Effects

This table mimics Table 2, but the regression equations now omits author-fixed effects.

| | What Makes an Article More Likely to be ... | | | |
|----------------------------------|---|----------------------|----------------------|-----------------------|
| | Read to the End? | | Shared? | |
| | (1) | (2) | (3) | (4) |
| <i>Reliance on Numbers</i> | -1.212*** (-7.55) | -1.833*** (-4.50) | 1.689*** (6.12) | 0.607*** (3.13) |
| <i>Length</i> | -0.209*** (-35.86) | -0.005 (-0.35) | 0.351*** (30.14) | 0.348*** (25.06) |
| <i>Editors' Pick</i> | -0.140*** (-10.72) | 0.135*** (3.89) | 0.298*** (11.26) | 0.377*** (11.01) |
| <i>Presentation</i> | 0.003 (0.77) | 0.111*** (9.81) | 0.052*** (5.59) | 0.118*** (10.20) |
| <i>Long Score</i> | 0.001*** (2.59) | 0.014*** (10.82) | -0.011*** (-9.81) | -0.003* (-1.94) |
| <i>Short Score</i> | 0.001*** (3.61) | 0.026*** (30.02) | 0.001 (0.76) | 0.016*** (17.25) |
| <i>ln (1 + Analyst Coverage)</i> | -0.004 (-1.11) | -0.073*** (-7.84) | -0.042*** (-7.27) | -0.085*** (-12.07) |
| <i>ln (1 + DJNS Coverage)</i> | -0.003** (-2.54) | 0.065*** (14.32) | -0.008** (-2.22) | 0.030*** (7.01) |
| <i>ln (1 + # Page Views)</i> | 1.016*** (273.20) | | | |
| <i>ln (1 + # Read-to-Ends)</i> | | | 0.590*** (79.13) | |
| # Obs. | 16,446 | 16,446 | 16,446 | 16,446 |
| Adj. R ² | 0.923 | 0.128 | 0.459 | 0.147 |

Table OA2.4
The Consumption and Sharing of Stock-Opinion Articles
- Controlling for Article Tone and Article Boldness

This table mimics Table 2, but we now also control for an article's tone and boldness. *Tone* is the number of positive words minus the number of negative words in a title or an article text divided by the corresponding total number of words. *Boldness* measures how far the tone of a title or an article text is away from the consensus tone on the stock in question. In particular, for each article written on stock *i*, we construct the average *Tone* across all titles or across all articles written on stock *i* over the previous month, *Tone_{Stock}*. *Boldness* is the absolute difference between the tone of the title or the article and its corresponding *Tone_{Stock}*.

| | What Makes an Article More Likely to be ... | | | | |
|----------------------------------|---|-----------------------|----------------------|----------------------|----------------------|
| | Viewed? | Read-to-End? | | Shared? | |
| | (1) | (2) | (3) | (4) | (5) |
| <i>Reliance on Numbers</i> | | -1.237*** (-6.01) | -1.148*** (-3.24) | 1.605*** (5.54) | 0.943*** (4.61) |
| <i>Tone_{Title}</i> | -0.291*** (-3.77) | | | | |
| <i>Tone</i> | | -1.240*** (-6.45) | -2.891*** (-4.87) | 5.307*** (9.91) | 3.641*** (5.73) |
| <i>Boldness_{Title}</i> | 0.117 (1.27) | | | | |
| <i>Boldness</i> | | 1.425*** (3.19) | 6.866*** (8.23) | -2.498*** (-3.28) | 1.459* (1.73) |
| <i>Length_{Title}</i> | -0.009*** (-3.55) | | | | |
| <i>Length</i> | | -0.206*** (-27.56) | 0.038* (1.94) | 0.387*** (21.33) | 0.409*** (20.01) |
| <i>Editors' Pick</i> | 0.421*** (16.87) | -0.114*** (-10.35) | 0.217*** (6.87) | 0.285*** (11.55) | 0.410*** (13.11) |
| <i>Presentation</i> | | 0.004 (0.95) | 0.047*** (4.43) | 0.016* (1.73) | 0.043*** (3.82) |
| <i>Long Score</i> | 0.009*** (7.10) | 0.001*** (3.17) | 0.010*** (7.40) | -0.009*** (-7.78) | -0.003** (-2.39) |
| <i>Short Score</i> | 0.017*** (20.76) | 0.001*** (3.18) | 0.017*** (20.77) | 0.002** (2.35) | 0.012*** (12.87) |
| <i>ln (1 + Analyst Coverage)</i> | -0.033*** (-4.77) | 0.004 (1.63) | -0.030*** (-3.93) | -0.026*** (-5.07) | -0.044*** (-7.10) |
| <i>ln (1 + DJNS Coverage)</i> | 0.047*** (10.04) | -0.006*** (-3.93) | 0.038*** (7.96) | 0.007* (1.71) | 0.029*** (6.18) |
| <i>ln (1+ # Page Views)</i> | | 1.003*** (271.23) | | | |
| <i>ln (1 + # Read-to-Ends)</i> | | | | 0.576*** (64.30) | |
| # Obs. | 16,446 | 16,446 | 16,446 | 16,446 | 16,446 |
| Adj. <i>R</i> ² | 0.423 | 0.945 | 0.422 | 0.549 | 0.351 |

Table OA2.5
The Consumption and Sharing of Stock-Opinion Articles
- Positive and Negative Articles

This table mimics Table 2, but we now examine whether our results differ between positive and negative articles. We first construct *Tone* as the number of positive words minus the number of negative words in an article text divided by the corresponding total number of words. *Positive* is an indicator variable, which equals one if an article's *Tone* is above the median and zero otherwise.

| | What Makes an Article More Likely to be ... | | | |
|--|---|----------------------|----------------------|----------------------|
| | Read-to-End? | | Shared? | |
| | (1) | (2) | (3) | (4) |
| <i>Reliance on Numbers</i> | -1.103*** (-4.82) | -0.964** (-2.43) | 1.612*** (4.38) | 1.059*** (4.29) |
| <i>Reliance on Numbers</i> × <i>Positive</i> | -0.512** (-2.52) | -0.903** (-2.39) | 0.166 (0.42) | -0.352 (-0.92) |
| <i>Positive</i> | -0.005 (-0.57) | -0.022 (-1.15) | 0.086*** (4.74) | 0.073*** (3.74) |
| <i>Length</i> | -0.210*** (-29.53) | 0.026 (1.34) | 0.390*** (21.60) | 0.404*** (19.77) |
| <i>Editors' Pick</i> | -0.114*** (-10.45) | 0.215*** (6.78) | 0.287*** (11.71) | 0.411*** (13.15) |
| <i>Presentation</i> | 0.004 (0.96) | 0.046*** (4.42) | 0.016* (1.73) | 0.043*** (3.82) |
| <i>Long Score</i> | 0.001*** (3.47) | 0.010*** (7.79) | -0.009*** (-8.17) | -0.004** (-2.56) |
| <i>Short Score</i> | 0.001*** (3.39) | 0.017*** (21.05) | 0.002** (2.10) | 0.012*** (12.78) |
| <i>ln (1 + Analyst Coverage)</i> | 0.005* (1.81) | -0.028*** (-3.69) | -0.027*** (-5.21) | -0.043*** (-7.07) |
| <i>ln (1 + DJNS Coverage)</i> | -0.005*** (-3.57) | 0.041*** (8.67) | 0.006 (1.42) | 0.029*** (6.28) |
| <i>ln (1 + # Page Views)</i> | 1.004*** (273.47) | | | |
| <i>ln (1 + # Read-to-Ends)</i> | | | 0.573*** (63.36) | |
| # Obs. | 16,446 | 16,446 | 16,446 | 16,446 |
| Adj. R ² | 0.945 | 0.419 | 0.547 | 0.351 |

Table OA2.6
The Consumption and Sharing of Stock-Opinion Articles
- Predicting Continuation or Reversal?

This table mimics Table 2, but we now include *Continuation* or *Reversal* and its interaction with *Reliance on Numbers*. *Continuation* equals one if an article's tone is above the median and the corresponding stock experienced positive returns over the past month, or, if an article's tone is below the median and the corresponding stock experienced negative returns. *Reversal* equals one if an article's tone is above the median and the corresponding stock experienced negative returns over the past month, or, if an article's tone is below the median and the corresponding stock experienced positive returns. We estimate the regression equation separately for the subsets of observations with positive articles (Panel A) and the subsets of observations with negative articles (Panel B).

| | What Makes an Article More Likely to be ... | | | |
|--|---|----------------------|----------------------|----------------------|
| | Read-to-End? | | Shared? | |
| | (1) | (2) | (3) | (4) |
| Panel A: Positive Articles Predicting Continuation of Recent Positive Returns versus Positive Articles Predicting Reversal from Recent Negative Returns | | | | |
| <i>Reliance on Numbers</i> | -1.585*** (-8.29) | -2.224*** (-5.21) | 1.153** (2.25) | -0.111 (-0.20) |
| <i>Reliance on Numbers</i> × <i>Continuation</i> | -0.218 (-0.99) | -0.058 (-0.12) | 0.755 (1.49) | 0.722 (1.35) |
| <i>Continuation</i> | -0.007 (-0.70) | -0.039 (-1.37) | -0.053* (-1.78) | -0.075** (-2.27) |
| <i>Length</i> | -0.227*** (-20.13) | 0.005 (0.16) | 0.393*** (15.24) | 0.395*** (12.74) |
| <i>Editors' Pick</i> | -0.124*** (-7.75) | 0.265*** (6.09) | 0.301*** (9.24) | 0.452*** (10.70) |
| <i>Presentation</i> | 0.009* (1.74) | 0.029** (2.18) | 0.011 (0.85) | 0.027* (1.80) |
| <i>Long Score</i> | 0.002*** (2.59) | 0.006*** (3.27) | -0.007*** (-4.28) | -0.003* (-1.69) |
| <i>Short Score</i> | 0.001* (1.90) | 0.017*** (14.51) | 0.001 (0.96) | 0.011*** (7.53) |
| <i>ln (1 + Analyst Coverage)</i> | 0.004 (1.23) | -0.031*** (-3.23) | -0.021*** (-3.07) | -0.039*** (-4.58) |
| <i>ln (1 + DJNS Coverage)</i> | -0.002 (-1.01) | 0.043*** (5.88) | 0.004 (0.60) | 0.028*** (3.79) |
| <i>ln (1 + # Page Views)</i> | 0.999*** (198.55) | | | |
| <i>ln (1 + # Read-to-Ends)</i> | | | 0.568*** (48.78) | |
| # Obs. | 8,222 | 8,222 | 8,222 | 8,222 |
| Adj. R ² | 0.945 | 0.441 | 0.561 | 0.374 |

Table OA2.6. Continued.

| | What Makes an Article More Likely to be ... | | | |
|--|---|----------------------|----------------------|----------------------|
| | Read-to-End? | | Shared? | |
| | (1) | (2) | (3) | (4) |
| Panel B: Negative Articles Predicting Continuation of Recent Negative Returns versus Negative Articles Predicting Reversal from Recent Positive Returns | | | | |
| <i>Reliance on Numbers</i> | -0.962*** (-3.53) | -0.672 (-1.49) | 1.611*** (2.96) | 1.223*** (3.23) |
| <i>Reliance on Numbers</i> × <i>Continuation</i> | -0.244 (-0.91) | -0.442 (-0.90) | -0.104 (-0.19) | -0.359 (-0.70) |
| <i>Continuation</i> | 0.022* (1.84) | 0.120*** (4.49) | 0.024 (0.90) | 0.093*** (3.42) |
| <i>Length</i> | -0.203*** (-23.11) | 0.045 (1.64) | 0.384*** (15.44) | 0.410*** (14.54) |
| <i>Editors' Pick</i> | -0.107*** (-7.00) | 0.175*** (3.71) | 0.304*** (8.04) | 0.405*** (8.36) |
| <i>Presentation</i> | 0.001 (0.13) | 0.062*** (3.47) | 0.019 (1.29) | 0.054*** (2.96) |
| <i>Long Score</i> | 0.001** (2.33) | 0.014*** (7.78) | -0.011*** (-6.70) | -0.003 (-1.45) |
| <i>Short Score</i> | 0.001 (1.63) | 0.016*** (14.41) | 0.002* (1.88) | 0.011*** (9.41) |
| <i>ln (1 + Analyst Coverage)</i> | 0.005* (1.66) | -0.029*** (-3.17) | -0.038*** (-5.48) | -0.055*** (-6.50) |
| <i>ln (1 + DJNS Coverage)</i> | -0.008*** (-3.91) | 0.037*** (5.20) | 0.010* (1.79) | 0.032*** (4.85) |
| <i>ln (1 + # Page Views)</i> | 1.009*** (215.99) | | | |
| <i>ln (1 + # Read-to-Ends)</i> | | | 0.577*** (43.41) | |
| # Obs. | 8,224 | 8,224 | 8,224 | 8,224 |
| Adj. R^2 | 0.944 | 0.401 | 0.544 | 0.345 |

Table OA3.1
Descriptive Statistics of Online-experiment Participants

Below, we present the frequency distribution of the net investable assets of the 310 CoreData participants we use in Experiment 1 and Experiment 2.

| Net investable assets ... | Number of investors | Fraction of investors |
|------------------------------|---------------------|-----------------------|
| ... less than \$100,000 | 166 | 54% |
| ... \$100,000 to \$300,000 | 44 | 14% |
| ... \$300,001 to \$500,000 | 62 | 20% |
| ... \$500,001 to \$1,000,000 | 26 | 8% |
| ... more than \$1,000,000 | 12 | 4% |

Table OA3.2
Effect of Impression-Management Considerations on the Sharing of Quantitative Articles

In this table we separate the responses reported in the first column of Panels A and D in Table 3 into those coming from investors with net investable assets below or equal to \$300,000 (column (1)) and those coming from investors with net investable assets above \$300,000 (column (2)).

| | Investors with Net Investable Assets | |
|---|--------------------------------------|----------------------|
| | $\leq \$300,000$ (1) | $> \$300,000$ (2) |
| Panel A: Experiment 1 | | |
| (Group 1) ... with a co-worker | 59.1% | 66.7% |
| (Group 2) ... with a very close friend | 46.4% | 43.3% |
| (Group 1) – (Group 2) | 12.7%* (1.90) | 23.3%* (1.84) |
| Panel B: Experiment 2 | | |
| (Group 1) ... with a co-worker after writing about a “perceived deficiency-in-the-self” | 52.7% | 35.0% |
| (Group 2) ... with a co-worker after writing about a neutral topic | 43.6% | 15.0% |
| (Group 1) – (Group 2) | 9.1% (1.35) | 20.0% (1.46) |

Table OA4.1
Which Types of Articles Are More Accurate in Predicting Abnormal Returns?

In this table we present coefficient estimates from regressions of cumulative DGTW-adjusted stock returns over one month, three months or six months following article publication (while skipping the first two trading days) on the overall tone expressed in an article, *Reliance on Numbers*, $\ln(1 + \# \text{ Read-to-Ends})$, $\ln(1 + \# \text{ Shares})$ and interactions between tone and these variables. *T*-statistics are reported in parentheses and are based on standard errors adjusted for heteroscedasticity and clustered by firm and day of article publication. *, **, and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

| | One Month | | | Three Months | | | Six Months | | |
|---|-------------------|-------------------|--------------------|-----------------|-------------------|---------------------|-----------------|-----------------------|----------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| <i>Tone</i> | 0.208** (2.39) | 0.254** (2.20) | -1.240* (-1.71) | 0.124 (0.41) | 0.362 (0.88) | -5.231** (-2.13) | 0.417 (1.02) | 0.999* (1.87) | -8.728*** (-2.86) |
| <i>Tone</i> \times <i>Reliance on Numbers</i> | | -1.210 (-0.78) | | | -6.469 (-1.55) | | | -15.832*** (-2.67) | |
| <i>Tone</i> \times $\ln(1 + \# \text{ Read-to-Ends})$ | | | 0.223* (1.87) | | | 0.771** (2.02) | | | 1.318*** (2.74) |
| <i>Tone</i> \times $\ln(1 + \# \text{ Shares})$ | | | -0.135 (-0.99) | | | -0.193 (-0.84) | | | -0.336 (-0.82) |
| # Obs. | 13,427 | 13,427 | 13,427 | 13,427 | 13,427 | 13,427 | 13,427 | 13,427 | 13,427 |
| Adj. R^2 | 0.004 | 0.004 | 0.008 | 0.008 | 0.009 | 0.019 | 0.021 | 0.022 | 0.035 |

Table OA4.2
Which Stock-Opinion Articles Are More Accurate?
The Ones Regarding Large Firms or the Ones Regarding Small Firms?

This table mimics Table 4, but we now include the corresponding stock's market capitalization. *T*-statistics are reported in parentheses and are based on standard errors adjusted for heteroscedasticity and clustered by day of article publication. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

| | One Month (1) | Three Months (2) | Six Months (3) |
|----------------------------------|----------------------|---------------------|---------------------|
| <i>Market Capitalization</i> | -0.006*** (-3.13) | -0.004* (-1.94) | -0.004** (-1.98) |
| <i>Length</i> | 0.014* (1.66) | 0.012 (1.53) | -0.004** (-1.98) |
| <i>Editors' Pick</i> | 0.054*** (2.71) | 0.019 (0.95) | 0.021** (2.38) |
| <i>Presentation</i> | -0.009 (-1.20) | -0.001 (-0.10) | 0.009 (0.49) |
| <i>Long Score</i> | 0.000 (0.33) | 0.001 (0.87) | -0.001 (-0.20) |
| <i>Short Score</i> | 0.001 (0.97) | 0.000 (-0.46) | 0.000 (-0.10) |
| <i>ln (1 + Analyst Coverage)</i> | -0.005 (-1.53) | -0.007* (-1.89) | 0.001* (1.92) |
| <i>ln (1 + DJNS Coverage)</i> | 0.007** (2.25) | 0.011*** (3.38) | -0.008** (-2.56) |
| # Obs. | 16,446 | 16,446 | 16,446 |
| Adj. R^2 | 0.001 | 0.001 | 0.001 |

Table OA4.3
Which Investors More Frequently Share Articles?

This table is based on the survey responses of the 300 investors we recruit for “Experiment A1” and “Experiment A2.” We present coefficient estimates from regressions of the number of shares on whether the investor is male and whether the investor describes him-/herself as a “*Novice investor*.” Since each investor is asked to read a quantitative article and a qualitative article, the dependent variable ranges from zero to two. The number of observations in the regression is 295 as five out of the 300 recruited investors choose “*Prefer not to say*” to our questions regarding gender and investment experience. *T*-statistics are reported in parentheses and are based on standard errors adjusted for heteroscedasticity. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

| | (1) | (2) | (3) |
|------------------------|--------------------|--------------------|--------------------|
| <i>Male</i> | 0.435*** (4.58) | | 0.415*** (4.44) |
| <i>Novice Investor</i> | | 0.442*** (3.97) | 0.418*** (3.87) |
| # Obs. | 295 | 295 | 295 |
| Adj. R^2 | 0.061 | 0.053 | 0.109 |

Table OA5.1
Virality and Stock Returns: Evidence from Alphas

This table mimics Table 5, but we now report the alphas of time-series regressions of daily portfolio returns in excess of the risk-free rate on either the Fama-French three factors (1993) or the Fama-French five factors (2015). *T*-statistics are based on Newey-West standard errors (five lags) and are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

| | Week 1 | | Weeks 2 through 4 | |
|---|---------------------|---------------------|----------------------|----------------------|
| | FF3-Factor α | FF5-Factor α | FF3-Factor α | FF5-Factor α |
| Panel A: Virality = # Shares / # Page Views | | | | |
| Low Virality | -0.05% (-0.77) | -0.03% (-0.54) | 0.06%** (2.00) | 0.08%** (2.35) |
| High Virality | 0.15%*** (3.34) | 0.16%*** (3.39) | -0.04%* (-1.76) | -0.04%* (-1.68) |
| High minus Low | 0.20%*** (2.73) | 0.19%*** (2.87) | -0.10%*** (-2.63) | -0.12%*** (-2.62) |
| # Obs. | 169 | 169 | 181 | 181 |
| Panel B: Virality = # Shares / # Read-to-Ends | | | | |
| Low Virality | -0.09% (-1.16) | -0.06% (-0.93) | 0.06%** (2.00) | 0.07%** (2.38) |
| High Virality | 0.16%*** (3.75) | 0.16%*** (3.65) | -0.02% (-0.92) | -0.03% (-1.09) |
| High minus Low | 0.25%*** (3.35) | 0.22%*** (3.55) | -0.09%** (-2.21) | -0.10%** (-2.45) |
| # Obs. | 169 | 169 | 181 | 181 |

Table OA5.2
Virality and Stock Returns: Evidence from Fama-MacBeth Regressions

This table mimics Table 5, but we now report estimates from Fama-MacBeth regressions of returns on an indicator denoting high virality and various firm characteristics. Each day, we rank stocks based on their level of virality. *High Virality* equals one if a stock resides in the top decile with regards to its virality and zero if a stock resides in the bottom decile. The remaining firm characteristics are constructed as in Chen and Zimmermann (2020). In column (1), we consider returns in the first week of article publication; in column (2), we consider returns in weeks 2 through 4. *T*-statistics are based on Newey-West standard errors (five lags) and are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

| | Week 1 (1) | Weeks 2 through 4 (2) |
|---|--------------------|--------------------------|
| Panel A: Virality = # Shares / # Page Views | | |
| <i>High Virality</i> | 0.127** (2.08) | -0.103*** (-3.03) |
| <i>Beta</i> | 0.021 (0.24) | 0.018 (0.31) |
| <i>Size</i> | -0.000 (-1.11) | -0.000 (-1.49) |
| <i>Market-to-Book Ratio</i> | 0.006 (1.07) | -0.001 (-0.67) |
| <i>Profitability</i> | 1.716 (1.16) | -0.302 (-0.46) |
| <i>Investment</i> | 0.112 (1.11) | 0.066 (0.90) |
| <i>Past-6-Months Returns</i> | -0.128 (-0.61) | 0.317 (2.12) |
| <i>Volatility</i> | -12.662 (-1.56) | 4.149 (1.47) |
| Panel B: Virality = # Shares / # Read-to-Ends | | |
| <i>High Virality</i> | 0.120 (1.62) | -0.082*** (-2.67) |
| <i>Beta</i> | 0.067 (0.58) | -0.006 (-0.12) |
| <i>Size</i> | 0.000 (0.33) | -0.000*** (-2.72) |
| <i>Market-to-Book Ratio</i> | 0.007 (1.14) | -0.003 (-0.96) |
| <i>Profitability</i> | 1.561 (0.81) | -0.146 (-0.23) |
| <i>Investment</i> | 0.226 (1.27) | 0.145** (2.46) |
| <i>Past-6-Months Returns</i> | -0.066 (-0.22) | 0.128 (1.05) |
| <i>Volatility</i> | -9.975 (-1.12) | 4.139 (1.62) |

Table OA6
Which Platform Better Reflects Investors' Views? Seeking Alpha or Twitter?

This table reports results from regressions of DGTW-adjusted stock returns on the tone of articles published on SA and the tone of tweets. The sample includes 3,393 stock/day observations for 913 stocks from January 2013 through March 2013. To construct *Tone_{Seeking Alpha}*, we compute for each stock, at the end of each day, the average tone across all SA articles published on the corresponding stock on the corresponding day. Tone is the number of positive words minus the number of negative words divided by the total number of words. To construct *Tone_{Twitter}*, we compute for each stock, at the end of each day, the tone across all tweets posted on the corresponding stock on the corresponding day. To facilitate comparison of the estimates of *Tone_{Seeking Alpha}* and *Tone_{Twitter}*, across all columns, we consider only stock/days for which there are both SA articles and tweets. *T*-statistics are reported in parentheses and are based on standard errors adjusted for heteroscedasticity and clustered by firm and day of article publication/tweet posting. *, **, and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

| | (1) | (2) | (3) |
|-------------------------------------|--------------------|--------------------|--------------------|
| <i>Tone_{Seeking Alpha}</i> | 0.548*** (3.76) | | 0.539*** (3.70) |
| <i>Tone_{Twitter}</i> | | 0.171*** (3.74) | 0.139*** (3.15) |
| # Obs. | 3,393 | 3,393 | 3,393 |
| Adj. R^2 | 0.010 | 0.001 | 0.011 |

Table OA7
Benchmarking the Returns that Survey Participants Report to Have Earned

In this table, we compare the returns that survey participants from our two original online experiments tabulated in Tables 3 and 8 report to have earned as of November 2020 with those they would have earned if they had randomly selected a stock. Columns (1) through (3) report the survey responses to the following question: “*What was or has been your overall return since you bought the stock? If you are not sure, please answer, “don’t know.”*” In column (1), we report the responses across all 540 investors. In columns (2) and (3), we report the responses separately for investors with net investable assets below or equal to and above \$300,000, respectively. Columns (4) through (6) report the simulated returns of 10,000 investors. Our simulation is set up as follows: Each investor purchases one stock only. In Panel A, investors randomly purchase a stock at any point between December 2019 and November 2020. In Panel B, investors randomly purchase a stock and hold it for six months. In both panels, each stock is randomly chosen from one of the following three lists: In column (4), investors randomly select a stock from the CRSP universe (we require that a stock’s market capitalization be above the 10th NYSE percentile and have daily return data for at least 20 trading days between December 1 2019 and November 30 2020). In column (5), investors randomly select a stock among stocks that are in the CRSP universe and that reside in the top turnover quintile as of the month prior to the purchase (as these are the stocks most frequently traded and, perhaps, also most frequently talked about). In column (6), investors randomly select a stock from the S&P500 universe (as S&P500 constituents include the largest and, perhaps, most well known and most frequently talked about companies).

| | Returns that survey participants report to have earned as of November 2020 | | | Returns that investors would have earned if they had randomly selected a stock from a given universe as of November 2020 | | |
|----------------------------|--|--------------------|--------------------|--|-----------------------------|----------------|
| | All investors (1) | ≤ \$300,000 (2) | > \$300,000 (3) | CRSP (4) | CRSP + high turnover (5) | S&P 500 (6) |
| Panel A: Random Entry | | | | | | |
| “less than -20%” | 2.5% | 1.5% | 7.1% | 6.7% | 9.1% | 3.8% |
| “between -20% and -10.01%” | 11.3% | 9.1% | 21.4% | 4.8% | 5.0% | 5.1% |
| “between -10% and -0.01%” | 10.0% | 10.6% | 7.1% | 12.2% | 9.2% | 13.6% |
| “between 0% and +10%” | 41.3% | 45.5% | 21.4% | 13.3% | 13.6% | 21.1% |
| “between +10.01% and +20%” | 15.0% | 12.1% | 28.6% | 16.8% | 9.4% | 18.5% |
| “greater than +20%” | 8.8% | 10.6% | 0.0% | 36.2% | 53.6% | 37.8% |
| “don’t know” | 11.3% | 10.6% | 14.3% | | | |

Table OA7. Continued.

| Panel B: Investors Enter in June 2020 (Holding Period = 6 Months) | | | | | | |
|---|-------|-------|-------|-------|-------|-------|
| <i>“less than -20%”</i> | 2.5% | 1.5% | 7.1% | 3.1% | 3.5% | 1.5% |
| <i>“between -20% and -10.01%”</i> | 11.3% | 9.1% | 21.4% | 4.1% | 4.2% | 3.9% |
| <i>“between -10% and -0.01%”</i> | 10.0% | 10.6% | 7.1% | 7.6% | 5.1% | 9.1% |
| <i>“between 0% and +10%”</i> | 41.3% | 45.5% | 21.4% | 17.6% | 6.3% | 16.3% |
| <i>“between +10.01% and +20%”</i> | 15.0% | 12.1% | 28.6% | 19.5% | 7.8% | 20.3% |
| <i>“greater than +20%”</i> | 8.8% | 10.6% | 0.0% | 48.2% | 73.2% | 48.9% |
| <i>“don’t know”</i> | 11.3% | 10.6% | 14.3% | | | |