

# Retail Investors' Use of Accounting Information in Investment Decision

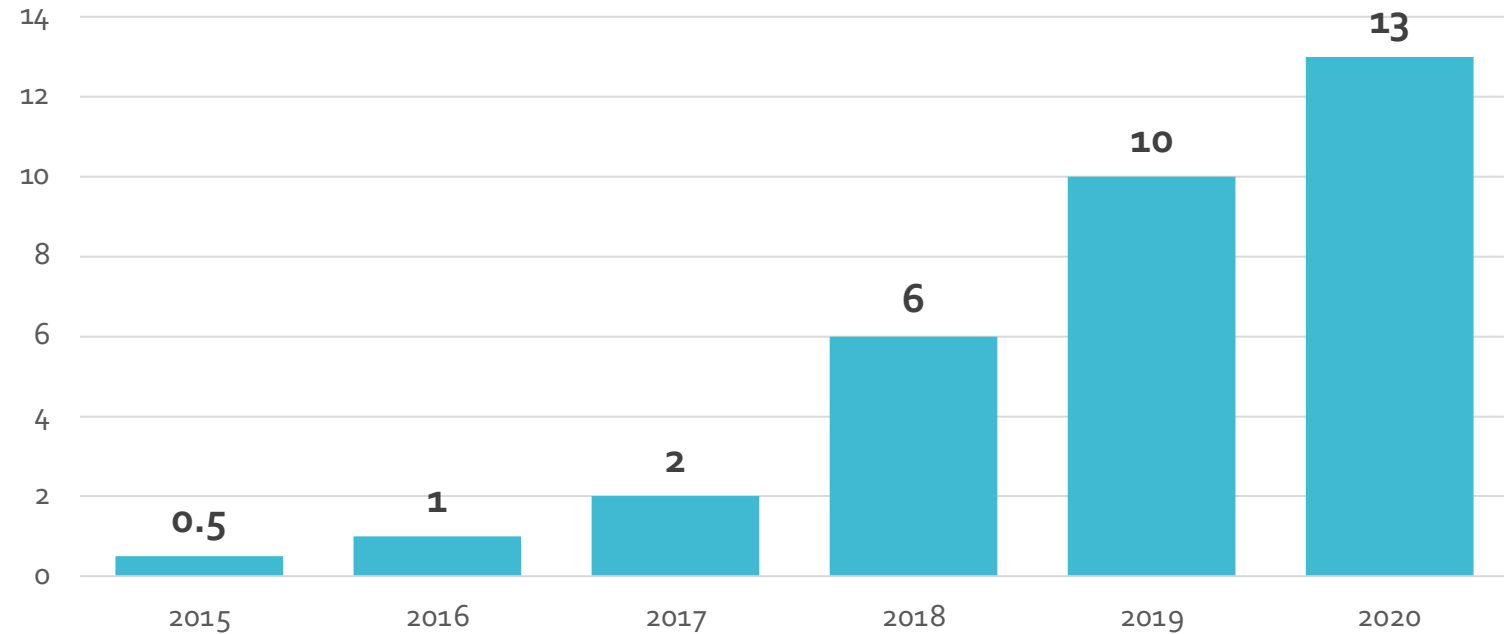
## Making:

Evidence from wallstreetbets subreddit

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Problem: the increase in the number of retail investors

Number of Robinhood users (millions)



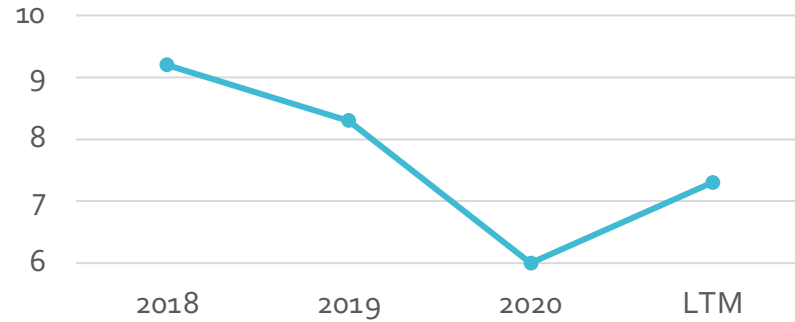
- Pandemic lock down
- New technologies (easier trading)
- Free stock trading (Robinhood)
- Elevated stock prices

# What makes up a stock's value?

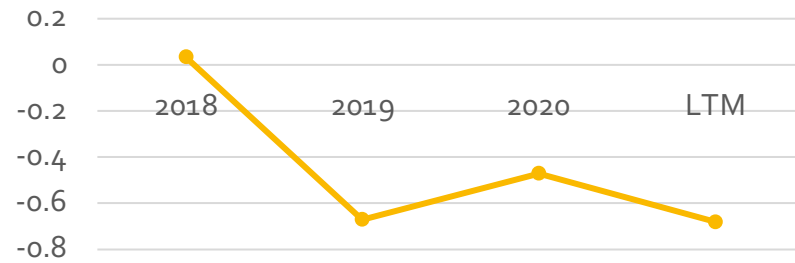
- A stock: Equity ownership of a fraction of a corporation
  - > A stock's value represents **the value of a company**  
*(ex. Future cash flow or earnings of a company and financial stability)*
  - > Both quantitative and qualitative **accounting information** is crucial when evaluating the value of a company

# Problem: the increase in the number of retail investors (contd)

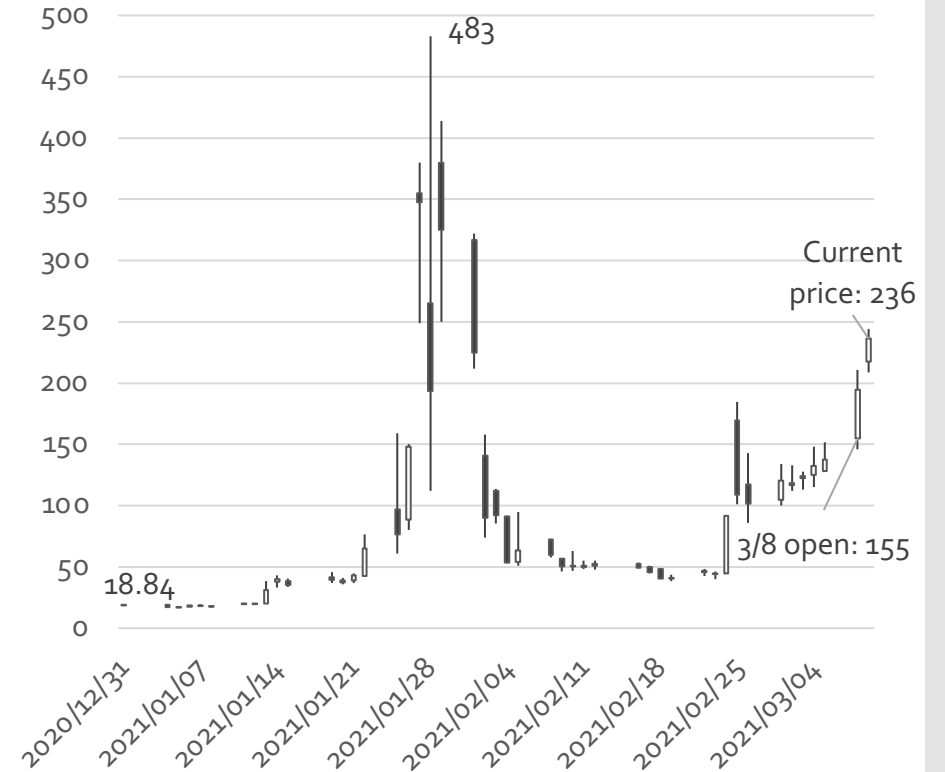
### GME: Revenue



### GME: Net Income from Continued Operations



### GME: Stock Price



- Gamestop (GME) was losing money and its credit rating was downgraded (Jan 20)
- Rebellion against the Wallstreet: led by the wallstreetbets subReddit
- Resulted in a loss of \$167 billion from 'Robinhood 50' stocks as of Feb 2

## Importance of this study

- *"Individual investors' attention to accounting information is of interest to academics, standard setters, and firms."*
- *"Rick Fleming, the SEC's first Investor Advocate, highlighted a continuing need for a better understanding of investor decision making to develop investor protection recommendations"*

(Lerman 2020)

# Gap in the Literature

- Although there has been prior research on online behavior of investors,
  - They do not provide insight into the **content** of information processed by individuals
  - The analysis of online communities were limited to Yahoo!Finance, Twitter, or StockTwits, and did not investigate the wallstreetbets subreddit
    - Number of Wallstreetbets users: 9.4M
    - Number of StockTwits users: 2M
    - Number of messages on Yahoo!Finance related to GME: 167K

# Research Questions

- How and when do retail investors use accounting information when making investment decisions?
  - Are the investment decisions of wallstreetbets users more passion driven than other previous platforms?
- Are the stock prices more correlated to the sentiment of wallstreetbets text than the accounting information?

# Research Method and Data Collection

- The extent accounting information is used in the wallstreetbets subreddit text (frequency of accounting terms mentioned)
- Compare the frequencies of emotional vocabulary used in wallstreetbets subreddit and other previous platforms' posts
- Correlation analysis: the relationship of stock prices between the magnitude(frequency) of positive sentiment in the wallstreetbets subreddit text vs. the accounting information
- Data:
  - Text content on wallstreetbets subreddit and other social platforms
  - Historical stock prices
  - Historical financial data of Robinhood 50