Discussion

FinTechs and the Market for Financial Analysis

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One of the areas in which FinTech has the potential to make a big difference is the availability of information in financial markets and intermediation

- Aggregating financial news
- Datamining for new investment signals
- Evaluating and ranking existing financial advice

What are the effects of these innovations on market participants and markets in general?

The paper uses original and comprehensive data to help assess these issues
Main Findings

- Entry of FinTech firms into market for financial analysis led to crowding out of information from financial analysts:
  - Investors who visit FinTech websites pay less attention to original analysts’ information
  - As a result, analysts provide less accurate and more optimistic information
    - Effect is stronger when analysts have stronger conflicts of interest

- Dark side of FinTech?
Taking a Step Back

- The question of the effect of new sources of information in financial markets is well-studied.

- Literature analyzes:
  - Positive effects of public information via leveling the playing field and new information provision
  - Negative effects via crowding out
  - Overall effect on market efficiency
  - Overall effect on real efficiency

- Authors should relate to literature and explain what is unique about FinTech
  - They could also touch on the different aspects in the literature
Is it surprising that investors who look at the summary of the information do not bother to look at the source
- Natural form of crowding out
- Key question is what happens to overall quality of information available

Result on quality of information produced by analysts is interesting, but...
- Again, what is the overall effect on quality of information available?
Comments on Main Results – Cont’d

- If analysts’ information is replaced by more precise information aggregation from bloggers and financial news, then **do we still care about analysts?**
- Try to understand better the **incentives of analysts**
  - Why would they like to inflate when people pay less attention to them? Benefit from inflating may decrease just as much as cost
- Attempts to address endogeneity with IV are not obviously convincing:
  - **Endogeneity Problem**: FinTech attention generated by new innovations, which are correlated with less accuracy
  - IV – psychological tricks in newspapers headlines to catch attention – can be correlated directly with both
Different types of information provided by FinTech:

- Current paper is more about **information aggregation**
- But, FinTech can use **new sources of information and big data**
  - Zhu (2017): Big Data as a Governance Mechanism
  - Froot, Kang, Ozik, Sadka (JFE, 2017): What do measures of real-time corporate sales say about earnings surprises and post-announcement returns?
- Which type of FinTech information innovation is more prominent in affecting financial markets?
- Are there **different effects** on analysts?
Some More Dimensions to Explore – Cont’d

- Does FinTech increase or decrease information asymmetry?
  - Typically, public information decreases information asymmetry
  - But, in some cases it is only used by sophisticated investors, and increases information asymmetry
    - Gargano, Rossi, Wermers (RFS, 2017): The Freedom of Information Act and the Race Toward Information Acquisition

- Mechanisms for crowding in vs. crowding out
  - **Crowding out**: Investors lose informational advantage and trade less on their information or produce less information
  - **Crowding in**: If there are multiple dimensions of information, providing more information on one encourages trading and production of information in other dimensions
    - Goldstein and Yang (2017): *Good Disclosure, Bad Disclosure*
Conclusion

- Promising Data
- Important issues to explore
- Interesting initial analysis and results

- Some suggestions on bigger picture and other dimensions to explore
- Also, interpretation of the results needs more work