

Discussion

FinTechs and the Market for Financial Analysis

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Information and FinTech

- 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
 - See recent review article: Goldstein and Yang, **Information Disclosure in Financial Markets**, *Annual Review of Financial Economics*, 2017
- 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

Comments on Main Results

- **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

Some More Dimensions to Explore

- 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