

News Trading and Fund Management *

Haojun Hu[†], Yufan Chen[‡], Martin Abrahamson[§], Katarzyna Cieslak[¶], and Fredrik Nilsson^{||}

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Abstract

This paper examines how mutual fund managers trade on firm-specific news and whether the ability to extract valuable information from complex signals represents a dimension of managerial skill that leads to superior performance. Using portfolio holdings of U.S. actively managed equity mutual funds and RavenPack news data, we construct fund-level measures of news-trading propensity that capture managers' portfolio responses to news coverage, sentiment changes, sentiment dispersion, and disagreement between news sentiment and analyst recommendations. We find that mutual fund managers do trade on firm-specific news, but not all forms of news trading generate investment value. While trading on overall news sentiment has no effect on future performance, managers with a stronger propensity to trade on highly relevant news sentiment earn significantly higher future abnormal returns. The performance effect is persistent, strengthening over subsequent two quarters before gradually declining. A one-unit increase in the propensity related to high relevance news sentiment changes is associated with a 0.30% increase in annualized abnormal return. We further show that disagreement between news and analyst recommendations serves as a wake-up call that attracts managerial attention and induces more aggressive portfolio adjustments. Exploiting such conflicting signals and trade according to news is also associated with superior subsequent performance for managers. Specifically, a one-unit increase in this propensity is associated with a 1.05% increase in annualized abnormal return. In contrast, a stronger propensity to trade on stocks receiving greater news coverage is associated with lower future fund performance. Moreover, the increased macroeconomic uncertainty weakens the performance benefits of news trading by reducing the value of firm-specific information. Overall, our findings identify the ability to distinguish informative news from an increasingly abundant information environment as an important dimension of mutual fund managerial skill and provide new evidence on how professional investors create value from public information.

Keywords: News sentiment; Data abundance; Portfolio Allocation; Investment skills; Fund performance

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[†]Corresponding author: Department of Business Studies, Uppsala University. **Email:** haojun.hu@fek.uu.se

[‡]Booth School of Business, University of Chicago. **Email:** yufan.chen@chicagobooth.edu

[§]Department of Business Studies, Uppsala University. **Email:** martin.abrahamson@fek.uu.se

[¶]Department of Business Studies, Uppsala University. **Email:** katarzyna.cieslak@fek.uu.se

^{||}Department of Business Studies, Uppsala University. **Email:** fredrik.nilsson@fek.uu.se

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1 Introduction

“In an information-rich world, the wealth of information means a dearth of something else: a scarcity of whatever it is that information consumes. What information consumes is rather obvious: it consumes the attention of its recipients. Hence a wealth of information creates a poverty of attention and a need to allocate that attention efficiently among the overabundance of information sources that might consume it.”

— Herbert A. Simon (1971), pp. 40–41

Because investors face limited attention, the exponential growth in the volume and diversity of available information may not improve investment decisions but instead lead to information overload (Kahneman, 1973; Maćkowiak et al., 2023; Sims, 2003). Consequently, fund managers must determine which data is economically meaningful, distinguish new information from repetition and noise, and decide whether the signal is sufficiently informative to justify a portfolio adjustment. This ability to trade on abundant information selectively may therefore represent an important dimension of fund-management skill.

Financial news provides a representative setting in which to examine this ability. It is publicly available, produced in large volumes, and highly heterogeneous in relevance and informational content. The value of news trading depends not simply on whether managers respond to news, but on *which* news signals they use and *how* they respond to them. A manager who reacts mechanically to every news article may face information overload and allocate attention inefficiently. By contrast, a manager who identifies economically relevant changes in sentiment or recognizes profitable trading opportunities arising from conflicting signals may make more informed portfolio decisions. This paper examines how mutual fund managers trade on firm-specific news and whether the ability to extract valuable information from complex signals in a data-abundant environment represents a distinct dimension of managerial skill that leads to superior performance.

The reliance on selective information plays the role in influencing agents’ performance (Kacperczyk and Seru, 2007; Van Nieuwerburgh and Veldkamp, 2009). Kacperczyk and Seru (2007) use analyst recommendations as a proxy for public information and show that skilled fund managers rely less on such signals. Van Nieuwerburgh and Veldkamp (2009) also argue that fund managers generate value not by learning what is already known by others, but by acquiring information in which they possess a comparative advantage. Analyst recommendations are public, structured, and pre-processed signals. As such, they fail to fully capture the burden imposed by information abundance or the capability required to filter noise from unstructured information sets. Building on Kacperczyk and Seru (2007) and Van Nieuwerburgh and Veldkamp (2009), we propose that fund managers’ expertise¹ is better revealed by how they navigate complex, high-noise environments

¹Skill refers to specific data-analytic ability and investment abilities, such as generating alpha or managing fund flows, while expertise includes broader knowledge, experience, and decision-making capabilities developed over time. In this study, we do not distinguish between expertise and skill. But we use skill in information integration, reflected in superior fund performance, as an empirical manifestation of expertise.

rather than by relying only on pre-packaged advice.

We argue that the skill-specific attributes of fund managers that explain abnormal performance must also be reflected in their ability to identify and exploit valuable signals when the informational environment is abundant, dispersed, and uncertain. Within the news environment, simply reacting to stocks with a greater volume of news may impair rather than improve performance because fund managers face limited attention (Fang et al., 2014). However, news coverage measures only the quantity of available information and the salience of a stock, not the informational value extracted by the manager. Skilled managers must also be able to “read the mind of the market” and know when to rely on particular types of information (Chen et al., 2021). Consistent with this perspective, prior studies show that skilled managers adapt their information acquisition strategies to changing market conditions. Specifically, fund managers focus more on macroeconomic information when the market’s uncertainty is high and generate superior performance as a result (Abis, 2020; Kacperczyk et al., 2016; Kwan et al., 2026; Peng et al., 2007). Beyond the news environment itself and macroeconomic conditions, we also propose that conflicting signals across information sources represent another important dimension of the information environment. Such disagreement not only attracts managerial attention but also creates opportunities for skilled managers to distinguish valuable information from noisy signals. Consequently, managers may generate superior performance by making informed portfolio decisions based on conflicting information.

This study addresses four related questions. First, do mutual fund managers adjust their portfolios in response to news coverage and sentiment? Second, does the propensity to trade on these signals explain subsequent fund performance? Third, under what informational conditions does news trading become more valuable or detrimental? We focus particularly on the roles of news relevance, information abundance, conflicts between analyst and news signals, and market uncertainty. Finally, do fund investors respond to differences in managers’ news-trading behavior? To answer these questions, we combine the CRSP Survivor-Bias-Free Mutual Fund Database, Thomson CDA/Spectrum mutual fund holdings, RavenPack news data, I/B/E/S analyst recommendations, and firm-level information from Compustat. The resulting sample covers 3,550 U.S. equity mutual funds from the second quarter of 2001 through the second quarter of 2025.

The results show that mutual funds trade on firm-specific news, but their responses depend on the nature of the signal. In the aggregate regressions, both the presence and volume of news are positively associated with portfolio holding changes, and the response is stronger for highly relevant news. However, the positive aggregate relation does not reveal whether managers respond by buying more aggressively, selling less aggressively, or both. The buy–sell decomposition shows that news coverage is associated with both less aggressive buying and less aggressive selling. The positive aggregate coefficient therefore appears to reflect an asymmetric reduction in trading intensity, with selling declining more than buying. Overall, greater news coverage makes fund managers more cautious in adjusting their positions.

Funds also respond to the informational content of news. At the aggregate level, improvements in news sentiment are associated with more positive portfolio adjustments, particularly when the

news is highly relevant. Nevertheless, the buy–sell results again show that managers reduce both their buying and selling as the change of the sentiment improves. Thus, changes in sentiment across quarters appear to moderate trading intensity rather than stimulate more trading. A different pattern emerges for sentiment dispersion within the quarter. Greater dispersion is associated with more active buying and selling, suggesting that heterogeneous or conflicting contemporaneous signals encourage managers to trade more aggressively. Taken together, the results imply that managers become more cautious when responding to changes in the information environment across quarters, but trade more actively when news signals are dispersed within the same quarter.

To assess the implications of managers’ responses to different news signals, we construct fund-level news-trading propensity measures. For each fund-quarter, we estimate a cross-sectional regression of portfolio holding changes on lagged news signals and stock characteristics. We then aggregate the estimated coefficients on the news variables using inverse-variance weights. This precision-weighted approach assigns greater weight to more precisely estimated trading responses and limits the influence of noisy fund-quarter estimates. We construct both a short-term measure based on the current quarter and a more persistent measure that combines estimates over four quarters. These propensity measures capture the strength and consistency with which each manager adjusts portfolio holdings in response to a particular dimension of news.

We show that the skill-specific attribute that leads to superior performance is characterized by selective information integration. Simply responding to aggregate changes in news sentiment does not significantly improve performance. However, managers who trade selectively on sentiment changes in highly relevant news achieve superior subsequent return, particularly when propensity is measured over a longer and more persistent horizon. Economically, a one-unit increase in the four-quarter precision-weighted propensity to trade on high-relevance news sentiment, $(\text{PROP}_{\Delta \text{Se}}^{\text{Rel}})$, is associated with a 0.30% increase in the annualized abnormal return, measured using the Carhart four-factor model. The effect peaks approximately two quarters after the measurement period, reaching an annualized abnormal return of 0.44%, and remains positive through the third subsequent quarter.

To better understand the mechanisms through which news trading enhances or harms fund performance, we examine how its effects vary across heterogeneous, conflicting, and uncertain information environments. We begin with the abundance and dispersion of news itself. A greater propensity to trade stocks with high overall news volume is associated with weaker subsequent performance. Economically, a one-unit increase in the four-quarter precision-weighted propensity to trade on aggregate news volume, $(\text{PROP}_{\Delta \text{NVol}}^{\text{All}})$, is associated with a 1.69% decline in annualized abnormal return from buy-side decisions and a 1.22% decline from sell-side decisions. Importantly, this negative relation is not observed for high-relevance news volume. This reinforces the importance of distinguishing between the quantity of available news and its relevance.

Although fund managers face constraints due to information abundance, the disagreement across information sources helps guide attention and contribute to superior performance. We provide novel evidence that conflicts between analyst recommendations and news sentiment serve as a “wake-up

call.” Funds trade more aggressively when these signals disagree. Conflicting signals are associated with a 0.39% increase in buying and a 0.25% increase in selling over the next quarter. Unlike raw information volume, which acts as a distraction, disagreement prompts managers to scrutinize positions that might otherwise be overlooked. The performance benefits arise specifically when managers align their trades with news sentiment ($\text{PROP}_{\text{ConfNews}}$) rather than analyst recommendations ($\text{PROP}_{\text{ConfAna}}$). A one-unit increase in $\text{PROP}_{\text{ConfNews}}$ is associated with a 1.05% increase in annualized abnormal return, whereas reliance on analyst recommendations under conflicting signals does not produce comparable gains. These findings highlight the importance of selectively trading under conflicting conditions.

Beyond the dispersion of news and conflicts across information sources, aggregate market uncertainty also shapes the value of news trading. Our results show that macroeconomic uncertainty generally weakens the performance benefits of trading on firm-specific news. The negative interaction effects are particularly pronounced for news coverage, overall news sentiment, and short-term conflict trading. These findings suggest that periods of increased uncertainty make firm-specific signals more difficult to isolate and exploit. Nevertheless, the weaker interaction effects for high-relevance news sentiment indicate that identifying higher-quality information may preserve some of the value of firm-specific news even under uncertain market conditions.

Fund managers’ news-trading behavior influences not only fund performance but also investor capital allocation. Because investors partly recognize differences in managers’ use of news, fund flows may serve as an external governance mechanism that rewards more effective information processing and disciplines less valuable trading behavior. Investors do not systematically respond to short-term news-trading propensity measured using only the current quarter. Using the four-quarter measures, however, we find that investors distinguish between different types of news use. The propensities to trade on stocks with larger overall and high-relevance news volume are negatively associated with subsequent fund flows, although the estimates are only marginally significant. Investors therefore do not appear to interpret broad sensitivity to news abundance as evidence of superior ability. In contrast, the propensity to trade on high-relevance news sentiment is positively associated with subsequent flows, whereas the propensity to trade on overall sentiment is insignificant. Economically, a one-unit increase in the four-quarter precision-weighted propensity to trade on high-relevance news sentiment is associated with an approximately 10.36-basis-point increase in monthly fund flows, equivalent to about 1.24% on an annualized basis. Investors thus appear to reward selective and persistent use of economically meaningful news rather than indiscriminate responsiveness to public information.

This paper contributes to three streams of literature. First, it contributes to the literature on fund managerial skill and fund performance. Prior studies identify managerial skill from fund holdings and trading decisions, including stock-picking ability (Wermers, 2000), portfolio concentration (Kacperczyk et al., 2005), active share (Cremers and Petajisto, 2009), and value creation through unobserved portfolio actions (Kacperczyk et al., 2008). Other recent studies identify skill from managers’ ability to acquire and process information, such as responding to reductions in

analyst coverage (Chen et al., 2020), acquiring public filings before trading (Crane et al., 2023), exploiting market sentiment (Chen et al., 2021), and adopting new information-processing technologies (Sheng et al., 2026). Different from these studies, our paper identifies the selective use of firm-specific news as an additional dimension of managerial skill. We show that fund performance depends not simply on whether managers respond to public news, but on their ability to distinguish value-relevant signals from the broader information flow.

Second, our paper contributes to the literature on the use and implications of news in asset management. Prior studies examine how news and media coverage affect investor attention and trading behavior, including the purchase of attention-grabbing stocks (Barber and Odean, 2008), local investors’ responses to newspaper coverage (Engelberg and Parsons, 2011), and institutional investors’ search for and attention to analyst recommendation changes and earnings announcements (Ben-Rephael et al., 2017). Other studies investigate the role of the media in information dissemination and price formation (Peress, 2014), the relation between media coverage of portfolio holdings and mutual fund flows (Solomon et al., 2014), and the effect of trading in highly covered stocks on fund performance (Fang et al., 2014). We extend this literature by moving beyond whether a stock receives news coverage and examining how professional fund managers use the information contained in news. Specifically, we construct fund-level measures of managers’ trading responses not only to news coverage and news volume, but also to sentiment changes, sentiment dispersion, and conflicting signals across news and analyst information, thereby extending the dimensions of news examined in the prior literature. This approach enables us to distinguish the salience and quantity of news from its relevance and informational content, and to identify which forms of news trading contribute to future fund performance.

Third, our paper contributes to the literature on firm-specific information, limited attention, and investor trading behavior. Prior studies show that investors have limited information-processing capacity and therefore allocate more attention to market- and category-level information than to firm-specific signals (Peng and Xiong, 2006; Peng et al., 2007). This constraint can generate distraction when investors face a large volume of information (Fang et al., 2014), competing information events (Hirshleifer et al., 2009), or the need to process information from many portfolio firms simultaneously, which reduces the profitability of institutional trading (Schmidt, 2019). Related studies show that macroeconomic news can crowd out attention to firm-specific information (Liu et al., 2023) and that institutional investors shift their attention toward aggregate information when market uncertainty increases (Abis, 2020; Kacperczyk et al., 2016; Kwan et al., 2026). At the same time, investors who allocate attention more effectively can achieve superior investment performance (Gargano and Rossi, 2018). We contribute to this literature by showing that the consequences of information abundance depend on both information quality and managers’ allocation of attention. Trading extensively on broad news volume is associated with weaker performance, whereas highly relevant news and conflicting signals across information sources help direct attention toward valuable investment opportunities. Moreover, aggregate uncertainty weakens the performance value of firm-specific news trading.

The rest of the paper proceeds as follows. Section 2 develops the hypotheses. Section 3 describes the data and sample construction. Section 4 examines whether mutual funds adjust their holdings in response to news signals. Section 5 develops the news-trading propensity measures and investigates their relation to future fund performance. Section 6 investigates the mechanisms through which news trading contributes to fund performance, focusing on the information environment, including news abundance, conflicting signals between news and analyst recommendations, and macroeconomic uncertainty. Section 7 studies the relation between news-trading propensity and subsequent fund flows. Section 8 presents robustness tests, and Section 9 concludes.

2 Hypothesis Development

2.1 Firm-Specific News and Portfolio Decisions

Investment decisions require investors to identify, process, and act on relevant information from a continuously expanding information set. Because attention and information-processing capacity are limited, investors cannot evaluate all available signals with equal intensity and must instead allocate attention selectively (Sims, 2003; Maćkowiak et al., 2023). This constraint is particularly relevant in financial markets, where investors simultaneously face information from firm disclosures, analyst forecasts, macroeconomic developments, and a growing volume of textual news.

Firm-specific news represents an important component of this information environment. By disseminating information about corporate events and drawing attention to particular firms, the media can influence both which stocks investors consider and how they assess those stocks. Prior research shows that investors are more likely to trade securities that attract attention through media coverage, extreme returns, or unusual trading activity (Barber and Odean, 2008). Media coverage also facilitates the diffusion of public information and increases trading activity. For example, Engelberg and Parsons (2011) show that local media coverage of earnings announcements increases trading among investors exposed to that coverage, while Peress (2014) finds that interruptions to newspaper publication reduce trading activity and slow the incorporation of public information into prices. These findings suggest that the media serves not merely as a passive transmitter of information but also as an important mechanism through which investor attention is directed toward particular firms.

Professional investors are not immune to these attention effects. Fang et al. (2014) show that mutual fund managers exhibit persistent differences in their propensity to buy media-covered stocks, indicating that media attention systematically influences professional portfolio decisions. However, the availability of news alone captures only whether a firm receives attention. It does not capture the information conveyed by that news. A firm may receive extensive coverage without experiencing any meaningful change in its underlying prospects, whereas a smaller number of highly relevant news items may contain substantial information about future cash flows or firm value. Understanding mutual fund trading therefore requires distinguishing between the *availability* of news and its

informational content.

News sentiment provides one way to capture this distinction. Changes in the tone of firm-specific news may convey new information about a firm’s economic prospects and therefore induce managers to revise their expectations and portfolio positions. Managers may respond not only to whether news is available, but also to whether its informational implications become more positive or negative. Moreover, disagreement across news articles, reflected in greater sentiment dispersion, may indicate a more complex or uncertain information environment. Such heterogeneity can induce additional information processing as managers seek to reconcile competing assessments of the same firm.

Accordingly, we expect mutual fund managers’ portfolio adjustments to reflect several dimensions of the news environment, including the presence and intensity of news coverage, changes in news sentiment, and the dispersion of sentiment across news items. We therefore propose the following hypothesis:

H1: Mutual fund portfolio adjustments are related to the availability and informational content of firm-specific news.

2.2 Heterogeneity in Managers’ Reliance on News

The fact that mutual funds respond to news does not necessarily imply that all managers use news in the same way or that greater responsiveness to news generates superior performance. The heterogeneity of integrating information into investment decisions is central to the literature on information acquisition and managerial skill. Kacperczyk and Seru (2007) argue that the value of skilled fund managers may lie in information that is not already widely reflected in public signals. Using changes in analyst recommendations as a proxy for public information, they show that greater reliance on such information is negatively associated with future fund performance. Similarly, Van Nieuwerburgh and Veldkamp (2009) argues that investors benefit from allocating their limited learning capacity toward areas in which they possess a comparative informational advantage rather than acquiring information already widely known by other market participants. Information choice and portfolio choice are therefore jointly determined: investors choose what to learn, and that choice subsequently affects which assets they hold and trade (Van Nieuwerburgh and Veldkamp, 2010).

These arguments imply that the investment value of public information depends on how managers use it. Analyst recommendations are structured, summarized, and readily interpretable public signals. In contrast, firm-specific news constitutes a much larger and less structured information set. Extracting investment value from news requires managers to identify relevant articles, distinguish informative developments from noise, evaluate changes in sentiment, and integrate these signals with other information about the firm. Thus, managers may observe the same body of news while differing in their ability to determine which parts of that information deserve attention.

Highly relevant firm-specific news provides a setting in which to identify selective information

processing. News directly related to a firm is more likely to contain information useful for revising expectations about firm value, while broad news measures may contain duplicated, tangential, or noisy information. A manager who systematically distinguishes highly relevant signals from the broader news environment may therefore exhibit a valuable information-processing capability that is not captured by a simple tendency to trade whenever a stock receives media attention. We therefore expect the performance implications of news trading to depend on the quality and relevance of the signals to which managers integrate. This leads to our second hypothesis:

H2: A greater propensity to trade on highly relevant firm-specific news is positively associated with subsequent fund performance, whereas reliance on broader news signals need not improve performance.

2.3 Information Environments and the Value of News Trading

The value of news-based trading may not be constant across information environments. Information-processing demands vary with the quantity, heterogeneity, and broader economic context of available signals. In relatively simple information environments, managers may identify and interpret relevant firm-specific developments with limited difficulty. As the information environment becomes more abundant, conflicting, or dominated by aggregate uncertainty, however, successful investment decisions increasingly depend on managers' ability to allocate attention selectively and distinguish informative signals from noise.

Information Abundance and Dispersion

More information does not necessarily lead to better investment decisions. Rational inattention theory implies that an expansion in available information can increase demands on limited cognitive and analytical capacity (Sims, 2003; Maćkowiak et al., 2023). When managers face a large volume of news, the marginal article may add little new information, while simultaneously increasing the difficulty of identifying the signals most relevant to firm value. Consistent with this view, Fang et al. (2014) show that professional investors are themselves subject to limited attention, while Dugast and Foucault (2025) theoretically demonstrate that greater data abundance can alter information-search incentives and need not improve average asset-management performance.

Accordingly, a distinction should be made between *information abundance* and *information diversity*. High news volume primarily increases the quantity of information managers must process and may therefore disperse attention. By contrast, sentiment dispersion reflects heterogeneity in the information conveyed by different news items. When news about the same firm contains divergent assessments, managers face a more complex interpretive problem but may also have greater scope to apply judgment and develop views that differ from market consensus. In this sense, disagreement need not merely represent noise. It can increase the value of selective information processing. We therefore propose:

H3a: The performance implications of news trading depend on the nature of the information environment: greater reliance on news abundance can harm subsequent fund performance, whereas selectively trading on informative heterogeneity in news may not.

Conflicting Analyst and News Signals

The information environment becomes particularly revealing when different information sources convey opposing signals. Analyst recommendations represent structured professional assessments that are publicly available and relatively inexpensive to interpret, whereas firm-specific news constitutes a broader and less structured information set requiring greater filtering and evaluation. When the two sources agree, managers can act without necessarily demonstrating an ability to distinguish between competing interpretations. When they disagree, however, managers must determine which signal deserves greater weight.

Conflicting signals may therefore function as a “wake-up call” that directs managerial attention toward firms requiring additional scrutiny. Rather than being overwhelmed by a greater quantity of information, managers confronted with cross-source disagreement are presented with a focused information-processing problem: analysts and news imply different assessments of the same firm’s prospects. Such disagreement may motivate managers to reassess existing beliefs, collect additional information, and determine whether the structured analyst signal or the less structured firm-specific news better reflects underlying fundamentals.

Prior research suggests that skilled managers derive value from selectively allocating attention to information where they possess an advantage (Van Nieuwerburgh and Veldkamp, 2009; Kacperczyk et al., 2016). Moreover, when traditional sources of information weaken, sophisticated investors can respond by increasing their acquisition of alternative information and subsequently earn superior abnormal returns (Chen et al., 2020). These arguments imply that the ability to resolve disagreement across competing sources can reveal a distinct dimension of information-processing ability.

In our setting, highly relevant news may contain firm-specific developments that have not yet been fully incorporated into broader analyst recommendations. Managers capable of identifying and consistently following such information when news and analysts disagree may therefore possess a comparative advantage in processing firm-level signals. By contrast, mechanically following analyst recommendations during such episodes is less likely to reveal distinct informational ability because analyst recommendations are already widely available and pre-processed. We therefore hypothesize:

H3b: When analyst recommendations and firm-specific news convey conflicting signals, a greater propensity to rely on highly relevant news rather than analyst recommendations is positively associated with subsequent fund performance.

Macroeconomic Uncertainty

The usefulness of firm-specific news may also depend on aggregate market conditions. When macroeconomic uncertainty is high, investors face greater difficulty separating firm-specific developments from economy-wide shocks. Attention may consequently shift away from idiosyncratic information and toward aggregate signals that become more important for explaining asset return.

Prior research supports this state-dependent allocation of attention. Peng et al. (2007) shows that greater market-wide uncertainty induces investors to concentrate more heavily on aggregate information. Similarly, Kacperczyk et al. (2016) finds that skilled mutual fund managers shift their attention toward aggregate shocks during recessions and toward idiosyncratic shocks during expansions. More direct evidence also indicates that professional investors’ attention to macroeconomic and firm-specific news varies with market conditions and that the profitability of acquiring firm-level public information can decline when macroeconomic uncertainty is high (Crane et al., 2023; Kwan et al., 2026).

These findings suggest that increased aggregate uncertainty can weaken the relative value of firm-specific news. A news item that is informative about a company’s individual prospects under normal market conditions may become more difficult to exploit when aggregate shocks dominate asset prices. Moreover, uncertainty can make it harder to distinguish whether changes in news sentiment reflect persistent developments in firm fundamentals or temporary exposure to market-wide conditions. As a result, managers with a strong propensity to trade on news may derive less performance benefit from firm-specific signals when macroeconomic uncertainty is high.

H3c: The value of trading on informative firm-specific news weakens as macroeconomic uncertainty increases.

3 Data and Descriptive Statistics

3.1 Mutual Fund Holdings and Fund Characteristics

We construct a sample of actively managed U.S. equity mutual funds from the CRSP Survivorship-Bias-Free Mutual Fund Database. Following Abis (2020) and Abis and Lines (2024), we identify equity funds using CRSP objective codes together with Lipper and Wiesenberger classifications and exclude index funds, ETFs, variable annuities, international funds, and sector funds.² To mitigate incubation bias, we exclude funds with less than \$5 million in total net assets (TNA), observations before the first offer date, and funds with fewer than 24 months of history. Because CRSP reports data at the share-class level, we aggregate share classes to the fund level using the `crsp_sl_grp`/`WFICN` identifier and fund names. Fund return and characteristics are value-weighted

²We additionally screen fund names and exclude those containing terms associated with index or exchange-traded products, including Index, Ind, Idx, Indx, iShares, SPDR, HOLDRs, ETF, Exchange-Traded Fund, PowerShares, and StreetTRACKS.

using lagged TNA, fund age is based on the oldest share class, and fund-level TNA is the sum of assets across all share classes.

Holdings data are constructed by combining the Thomson CDA/Spectrum Mutual Fund Holdings database from January 2000 to August 2008 with the CRSP Mutual Fund Holdings database from September 2008 to August 2025 (Abis and Lines, 2024). This combination avoids the deterioration in Thomson coverage after 2008, which disproportionately affects younger funds (Zhu, 2020). Because CRSP holdings include securities other than common equities, we retain only holdings whose CUSIPs can be matched to the CRSP monthly stock file. We further exclude funds holding fewer than 10 stocks and balanced funds investing, defined as those investing less than 80% of their non-cash assets in common equities (Kacperczyk and Seru, 2007). For fund m , stock i , and quarter t , we measure portfolio adjustment as the percentage change in shares held between quarters $t - 1$ to t , denoted by $\% \Delta \text{Hold}_{i,m,t}$ ³. Positive values indicate increases in holdings, while negative values indicate reductions.

In addition to fund age, TNA, expense ratio, and turnover, we construct measures of abnormal performance and capital flows. Monthly abnormal return is calculated following Kaniel et al. (2023) using factor loadings estimated from a rolling 24-month Carhart four-factor regression:

$$\text{AR}_{m,t} = \text{ER}_{m,t} - \left(\hat{\beta}_{\text{MKT},m,t-1} \text{MKT}_t + \hat{\beta}_{\text{SMB},m,t-1} \text{SMB}_t + \hat{\beta}_{\text{HML},m,t-1} \text{HML}_t + \hat{\beta}_{\text{MOM},m,t-1} \text{MOM}_t \right), \quad (3.1)$$

where $\text{ER}_{m,t}$ is the fund's excess return net of expenses and the factor loadings are estimated using information available before from month $t - 24$ to $t - 1$.⁴

Monthly fund flow is measured as the return-adjusted change in total net assets (Berk and Van Binsbergen, 2015):

$$\text{FL}_{m,t} = \frac{\text{TNA}_{m,t} - \text{TNA}_{m,t-1}(1 + R_{m,t})}{\text{TNA}_{m,t-1}}, \quad (3.2)$$

where $R_{m,t}$ is the fund return in month t .

Because mutual fund holdings are observed quarterly, we aggregate monthly fund-level variables to the quarterly level. Quarterly abnormal return, $\text{MAR}_{m,t}$, and quarterly fund flow, $\text{MF}_{m,t}$, are calculated as the average of their monthly counterparts within each quarter. Other fund characteristics, including size, expense ratio, turnover, and age, are measured at the end of the quarter.

³Because initiating a new stock position results in an undefined (infinite) percentage increase in holdings, we set $\% \Delta \text{Hold}_{i,m,t}$ to 100% whenever a stock is newly added to the fund's portfolio (Kacperczyk and Seru, 2007). The holding-change variable is then winsorized at the 1st and 99th percentiles, excluding observations with no holding value in the last period. The winsorization is used to limit outliers that arise when the lagged share position is extremely small. In such cases, even a modest increase in the number of shares can mechanically generate a very large percentage change in holdings. After winsorization, the final distribution of share changes ranges from -1 to 4. To assess the robustness of our results, we additionally tested an alternative threshold of 400% for newly added holdings. The qualitative results remain consistent. We do not use stock value changes as a proxy for portfolio adjustment because they largely reflect price movements rather than managers' active trading decisions.

⁴We also consider alternative factor models, including the Fama-French five-factor model and the five-factor model augmented with momentum, using both 24- and 36-month estimation windows. The results are qualitatively similar. Factor returns are obtained from Kenneth French's Data Library https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html.

3.2 RavenPack News Data and News Measures

We obtain firm-specific news data from RavenPack Analytics 1.0. RavenPack offers an analytical output for each intraday firm-specific news release from January 2000. These news releases are obtained from Dow Jones Newswires, the Wall Street Journal, Barron’s, and MarketWatch. Among plenty of the analytical outputs from RavenPack, we use the news relevance score (REL) and event sentiment score (ESS).

REL measures the degree to which a news story is related to a given entity and ranges from 0 to 100. The score is generated by a proprietary text-positioning algorithm based on the entity’s role in the event, its position in the article, the frequency of mentions, and the total number of entities in the news story. Higher REL values indicate greater relevance of the news story to the corresponding entity.

The ESS is a continuous measure ranging from -1.00 to $+1.00$ that captures the sentiment of news coverage associated with a given entity. The score is constructed using multiple sentiment proxies extracted from news articles and reflects the anticipated short-term financial or economic impact of entity-specific events. A key advantage of this score over sentiment measures based solely on emotional language is that it is grounded in financial experts’ evaluations of entity-specific events, which classify both the direction and intensity of the sentiment conveyed. These assessments are subsequently embedded in an algorithm that assigns each event a sentiment value on a scale from -1.00 to $+1.00$, where 0 denotes neutral sentiment, positive values indicate positive sentiment, and negative values indicate negative sentiment.

To construct firm-level news indicators, we aggregate RavenPack news data at the firm-quarter level. We first measure news coverage by counting the total number of news articles associated with each firm during a given quarter. We define $\text{NewsCov}_{i,t}$ as an indicator equal to one if stock i is covered by at least one news article in quarter t , and zero otherwise. To distinguish the availability of news from the intensity of news attention, we further construct news volume, $\text{NVol}_{i,t}$, defined as the logarithm of one plus the total number of news articles covering firm i during quarter t . To measure news sentiment, we use ESS and calculate the average sentiment score for each firm within each quarter. We define $\Delta\text{Se}_{i,t}$ as the change in average quarterly news sentiment from quarter $t - 1$ to quarter t . To capture the heterogeneity of information contained in the news environment, we construct $\text{SentStd}_{i,t}$ as the standard deviation of news sentiment scores for firm i within quarter t . A higher value indicates greater dispersion in news sentiment, potentially reflecting more heterogeneous, conflicting, or uncertain information about the firm. In addition to the full news sample (denoted as All), we construct a high-relevance news sample by retaining only news articles with a RavenPack relevance score above 95%, following Fang et al. (2014). We denote this subsample as Rel. We construct corresponding news coverage, volume, sentiment-change, conflicting indicators, and sentiment-dispersion measures based on this restricted sample. Finally, we merge the firm-level news measures with mutual fund portfolio holdings using CUSIP identifiers.

3.3 Analyst Information and Stock Characteristics

We supplement the news data with analyst recommendation information and stock characteristics. Analyst recommendations are obtained from I/B/E/S and aggregated to the stock-quarter level. We construct quarterly consensus recommendations and measure changes in analyst assessments between consecutive quarters. Our primary analyst information variable, $\Delta\text{Re}_{i,t}$, captures changes in the quarterly average analyst recommendation for stock i from quarter $t - 1$ to t . The measure is oriented such that larger values represent a deterioration in analyst recommendations.

Analyst recommendations serve two purposes in our empirical design. First, changes in analyst recommendations are included as a control in the stock-level portfolio holding regressions, allowing us to isolate the incremental relation between news signals and mutual fund portfolio adjustments beyond information already summarized by financial analysts. Second, analyst recommendations provide an alternative public information source against which managers' reliance on firm-specific news can be compared. Therefore, we also use analyst and news signals to identify periods of conflicting information. Specifically, we define a conflict, $\text{Conflict}_{i,t}$, when changes in analyst recommendations and changes in high-relevance news sentiment convey opposing implications for the firm's prospects. Such observations provide a particularly informative setting because managers must assess two competing public signals rather than respond to a uniformly positive or negative information environment. We subsequently use these conflict episodes to examine whether managers differ in how they resolve disagreement across information sources and whether such differences are associated with future fund performance.

Other information and control variables are constructed more directly. Stock-level fundamentals and return variables are obtained from CRSP and Compustat and measured at the end of quarter t , including market capitalization ($\text{MC}_{i,t}$), book-to-market ratio ($\text{BM}_{i,t}$), return on assets ($\text{ROA}_{i,t}$), and stock return ($\text{Ret}_{i,t}$), and stock turnover ($\text{TO}_{i,t}$). Market uncertainty is measured using the CBOE Volatility Index (VIX). Appendix A provides definitions of all variables used in the analysis.

3.4 Descriptive Statistics

To ensure sufficient cross-sectional variation for the subsequent regression analyses, we retain only fund-quarter observations with at least eight stock holdings for which stock characteristics, analyst recommendations, and changes in high-relevance news sentiment are all available. Table 1 compares the characteristics of funds that satisfy this data-availability requirement with those that do not, allowing us to assess whether the resulting sample differs systematically from the excluded observations.

The descriptive statistics indicate that the final analysis sample is comparable to the full fund universe. Funds in the analysis sample are slightly larger and older and exhibit somewhat lower turnover, while expense ratios, fund flows, and future performance are very similar across the two samples. Overall, the sample construction procedure does not appear to materially alter the economic characteristics of the funds included in the analysis.

Table 1: Descriptive Statistics of Fund Characteristics

This table reports descriptive statistics for the universe sample of fund-quarter observations and the sample for which news trading propensity can be estimated. The fund universe sample includes all fund-quarter observations satisfying the baseline sample requirements, whereas our sample includes fund-quarter observations with sufficient stock-level information to estimate the news trading propensity measures. Fund Size and Fund Age are measured in logarithms. P25, Median, and P75 denote the 25th, 50th, and 75th percentiles, respectively.

Variable	Fund Universe					Our Sample				
	Mean	SD	P25	Median	P75	Mean	SD	P25	Median	P75
SIZE	5.7365	1.8964	4.3614	5.6949	7.0642	5.8452	1.8629	4.4838	5.7998	7.1512
EXP	0.0115	0.0045	0.0090	0.0110	0.0137	0.0113	0.0042	0.0089	0.0109	0.0134
TURNOVER	0.8370	1.6317	0.3000	0.5600	0.9700	0.7786	1.3563	0.2933	0.5400	0.9267
AGE	5.0416	0.7624	4.4886	5.0752	5.5759	5.0961	0.7463	4.5747	5.1475	5.6095
MF	0.0092	1.5692	-0.0153	-0.0055	0.0056	0.0098	1.7441	-0.0152	-0.0058	0.0049
MAR	-0.0015	0.0139	-0.0069	-0.0014	0.0039	-0.0015	0.0128	-0.0066	-0.0014	0.0037
ER	0.0058	0.0343	-0.0085	0.0090	0.0245	0.0059	0.0334	-0.0072	0.0096	0.0243
Observations	186,909					150,121				
Number of Funds	4,069					3,550				

4 Do Mutual Funds Trade on News Signals?

We begin by examining whether mutual fund managers systematically incorporate firm-specific news into their portfolio decisions. This analysis serves two purposes. First, it establishes whether publicly available news is associated with actual portfolio adjustments after controlling for traditional sources of firm-level information. Second, it provides the empirical foundation for our subsequent construction of fund-specific news trading propensity measures. We distinguish between the *availability and intensity* of news coverage and the *informational content* of news, captured by changes in sentiment and sentiment dispersion.

For each news measure, we estimate stock-level regressions of portfolio holding changes on the relevant news signal, controlling for firm characteristics and changes in analyst recommendations. All specifications include fund-quarter fixed effects, thereby comparing stocks held by the same fund within the same quarter, and standard errors are clustered at the stock level. Specifically, we estimate the following regression:

$$\% \Delta \text{Hold}_{i,m,t} = \delta + \beta X_{i,t-1} + \gamma' \text{Controls}_{i,t-1} + \mu_{m,t} + \varepsilon_{i,m,t}, \quad (4.1)$$

where $\% \Delta \text{Hold}_{i,m,t}$ denotes the percentage change in the number of shares of stock i held by fund m between quarters $t - 1$ and t . The variable $X_{i,t-1}$ denotes the lagged news measure of interest. The vector $\text{Controls}_{i,t-1}$ includes stock size, turnover, book-to-market ratio, return-on-asset, past stock return, and changes in analyst recommendations. The term $\mu_{m,t}$ denotes fund-quarter fixed effects, which absorb all observable and unobservable characteristics common to fund m in quarter

t.

We report results for the full sample and separately for purchases and sales to examine whether managers respond asymmetrically across the two sides of their portfolios.

4.1 Do Mutual Funds Trade in News-Covered Stocks?

Mutual fund portfolio adjustments are systematically related to both the presence and intensity of firm-specific news coverage. Panel A of Table 2 reports the results. Across the full-sample specifications, the coefficients on both the general and high-relevance news coverage indicators are positive and highly statistically significant. Similar evidence emerges when news is measured by the number of articles covering a firm, indicating that managers respond not only to whether news is available but also to the amount of information disseminated about a stock.

The response is particularly pronounced for highly relevant news. In the full sample, a one-unit increase in overall news volume is associated with a 0.23% increase in portfolio holding changes, whereas the corresponding effect for high-relevance news volume is 0.75%. The substantially larger coefficient on high-relevance news suggests that managers place greater weight on news that is more closely related to firms' underlying economic circumstances. Thus, the observed trading response does not appear to reflect media attention alone. The relevance of the available information also matters.

Decomposing portfolio adjustments into buying and selling trades reveals that the positive association between news coverage and portfolio holding changes in the full sample is accompanied by a reduction in trading intensity conditional on trade direction. Specifically, funds trade less aggressively in stocks receiving news coverage or a greater volume of news, regardless of whether the trade is a purchase or a sale. For purchases, the negative coefficients indicate that managers buy less aggressively. For sales, because the dependent variable is defined such that a larger negative portfolio change represents more intensive selling, the positive coefficients imply that managers sell less aggressively in stocks receiving news coverage or a greater volume of news. Moreover, the reduction in trading intensity is substantially larger for sales than for purchases, suggesting that news affects buying and selling decisions asymmetrically. Notably, when news is highly relevant, funds do not significantly adjust their trading intensity in response to the volume of such news.

Generally, news coverage affects mutual fund trading by reducing the aggressiveness of mutual fund portfolio adjustments. Importantly, the relevance of the news also matters, as managers respond differently to highly relevant information than to news coverage based on the full news sample.

4.2 Do Mutual Funds Trade on News Sentiment and Dispersion?

Mutual fund managers respond not only to the availability of news but also to its informational content and heterogeneity. Panel B of Table 2 examines whether portfolio adjustments are associated with changes in news sentiment across quarters and with the dispersion of sentiment across

Table 2: Do Mutual Funds Trade on News Signals?

This table reports stock-level regressions of mutual fund portfolio holding changes on news-related variables. Panel A examines whether mutual funds trade in stocks with news coverage and whether trading varies with the amount of news coverage. Panel B examines whether mutual funds respond to changes in news sentiment and news sentiment dispersion. Columns (1)–(4) report the full-sample results, columns (5)–(8) report the purchase subsample results, and columns (9)–(12) report the sale subsample results. Each column represents a separate regression. Controls include firm size, stock turnover, book-to-market ratio, return on assets, stock return, and changes in analyst recommendations. All regressions include fund-quarter fixed effects. Coefficients are reported with t -statistics in parentheses. Standard errors are clustered by stock. Statistical significance is represented by ***, **, and * for the 1%, 5%, and 10% levels, respectively.

	All				Buy				Sell			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Panel A: News Coverage												
NewsCov ^{All}	0.0356*** (35.54)				-0.0067*** (-4.36)				0.0448*** (29.10)			
NewsCov ^{Rel}		0.0356*** (35.53)				-0.0066*** (-4.34)				0.0448*** (29.09)		
NVol ^{All}			0.0023*** (4.77)				-0.0031*** (-2.77)				0.0047*** (4.85)	
NVol ^{Rel}				0.0075*** (7.74)				0.0003 (0.11)				0.0052*** (2.66)
Observations	21,719,344	21,719,344	21,719,344	21,719,344	13,287,088	13,287,088	13,287,088	13,287,088	8,432,256	8,432,256	8,432,256	8,432,256
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fund-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered by stock	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Within $R^2\%$	0.07	0.07	0.06	0.07	0.38	0.38	0.38	0.38	3.36	3.36	3.36	3.36
Panel B: News Sentiment												
ΔSe^{All}	0.0143*** (4.83)				-0.0034 (-1.23)				0.0127*** (5.92)			
ΔSe^{Rel}		0.0045* (1.83)				-0.0045* (-1.89)				0.0066*** (3.74)		
SentStd ^{All}			0.0212*** (2.90)				0.1383*** (11.11)				-0.1085*** (-10.52)	
SentStd ^{Rel}				0.0352*** (5.36)				0.1314*** (11.47)				-0.0851*** (-8.64)
Observations	13,111,514	13,102,062	13,122,505	13,116,125	7,983,665	7,977,302	7,987,474	7,983,174	5,127,849	5,124,760	5,135,031	5,132,951
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fund-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered by stock	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Within $R^2\%$	0.06	0.06	0.06	0.06	0.45	0.45	0.46	0.46	2.72	2.72	2.76	2.74

news articles within the quarter. The results show that both dimensions of the news environment are related to trading behavior, although they operate through distinct mechanisms.

Managers incorporate changes in the tone of firm-specific news into their portfolio decisions. Specifically, changes in news sentiment are positively associated with portfolio holding changes in the full sample. Economically, a one-unit increase in overall news sentiment, ΔSe^{All} , is associated with a 1.43% increase in portfolio holding changes, while the corresponding increase associated with high-relevance news sentiment, ΔSe^{Rel} , is 0.45%. Therefore, funds react more to the aggregate news sentiment change.

Contrary to the conventional expectation that more favorable news sentiment encourages additional buying, mutual fund managers appear to trade more cautiously following improvements in firm-specific news sentiment. Rather than increasing their holding positions, managers reduce the magnitude of their buy trades, particularly when the sentiment change is derived from highly relevant news. Specifically, a one-unit increase in ΔSe^{Rel} is associated with a 0.45% reduction in portfolio holding changes. This evidence suggests that managers respond to substantial changes in firm-specific information by processing the new information more cautiously before making large portfolio adjustments.

Unlike changes in average news sentiment between quarters, news sentiment dispersion within a quarter appears to stimulate mutual fund trading activity. Greater dispersion in news sentiment within a quarter is associated with larger portfolio adjustments in both the buy and sell subsamples. It indicates that managers trade more actively when news conveys heterogeneous or conflicting information about a firm. One possible explanation is that greater disagreement increases the value of information integration, providing skilled managers with opportunities to form investment decisions that differ from the market consensus. Consequently, periods characterized by more dispersed news sentiment appear to encourage more active portfolio rebalancing.

Overall, the evidence presented in this section demonstrates that mutual fund managers incorporate multiple dimensions of firm-specific news into their portfolio decisions. Trading behavior depends not only on the presence and intensity of news coverage but also on changes in news sentiment and the degree of disagreement across news sentiment. While these results establish that news influences mutual fund trading on average, they also raise the possibility that managers differ substantially in the extent to which they rely on public news. The next section develops fund-level measures of news trading propensity to quantify this heterogeneity and examines whether greater reliance on specific news signals is associated with superior subsequent fund performance.

5 Does News Trading Contribute to Fund Performance?

The preceding analysis shows that mutual fund managers do adjust their portfolios in response to firm-specific news. However, the existence of such a trading response does not imply that all managers rely on news to the same extent or that greater responsiveness to news necessarily improves investment performance. We therefore next examine whether mutual funds exhibit persistent het-

erogeneity in their reliance on different news signals and whether such heterogeneity predicts future risk-adjusted return.

To capture this variation, we construct fund-quarter measures of news trading propensity that summarize the extent to which a fund’s portfolio adjustments respond to a particular news signal. The measure is designed to distinguish managers who systematically incorporate specific news signals into their investment decisions from those whose portfolio changes are only weakly related to such information. We then relate these propensity measures to subsequent fund performance.

5.1 Construction of News Trading Propensity

We construct news trading propensity using a two-step procedure following Fang et al. (2014). In the first step, for each fund m and quarter t , we estimate a cross-sectional regression across the stocks held in the fund’s portfolio:

$$\% \Delta \text{Hold}_{i,m,t} = \delta_{m,t} + \beta_{X,m,t} X_{i,t-1} + \gamma'_{m,t} \text{Controls}_{i,t-1} + \varepsilon_{i,m,t}, \quad i = 1, \dots, n, \quad (5.1)$$

where $\% \Delta \text{Hold}_{i,m,t}$ denotes the percentage change in the number of shares of stock i held by fund m between quarters $t - 1$ and t . The variable $X_{i,t-1}$ represents the lagged news signal of interest, and $\text{Controls}_{i,t-1}$ includes stock size, turnover, return-on-asset, past stock return, and changes in analyst recommendations. The coefficient $\beta_{X,m,t}$ therefore captures the sensitivity of fund m ’s portfolio adjustments to signal X in quarter t , conditional on other observable firm-level information.

Our main analysis focuses on propensity measures based on changes in news sentiment. We separately construct $\text{PROP}_{\Delta Se}^{\text{All}}$ using changes in overall news sentiment and $\text{PROP}_{\Delta Se}^{\text{Rel}}$ using changes in sentiment derived only from highly relevant news. This distinction allows us to test whether the investment value of news trading depends on the informational quality of the news to which managers respond.

The first-stage regression is estimated separately for each fund-quarter⁵. Because individual quarterly estimates may be noisy, we aggregate the first-stage coefficients over multiple quarters using inverse-variance weighting. Specifically, for information signal X , the news trading propensity of fund m in quarter t is defined as

$$\text{PROP}_{X,m,t} = \frac{\sum_{\ell=0}^L \frac{\hat{\beta}_{X,m,t-\ell}}{\hat{\sigma}_{X,m,t-\ell}^2}}{\sum_{\ell=0}^L \frac{1}{\hat{\sigma}_{X,m,t-\ell}^2}}, \quad (5.2)$$

where $\hat{\beta}_{X,m,t-\ell}$ is the estimated first-stage coefficient and $\hat{\sigma}_{X,m,t-\ell}^2$ is its estimated variance. The

⁵To ensure sufficient cross-sectional variation, we retain only fund-quarter observations with at least eight stocks for which the dependent variable, the information signal, and all control variables are available. This requirement reduces the likelihood that the estimated response coefficient is driven by a very small number of portfolio holdings.

inverse-variance weighting scheme assigns greater weight to more precisely estimated coefficients and less weight to noisier estimates.

We construct propensity measures using alternative estimation windows. When $L = 0$, the measure is based only on the current-quarter response coefficient. When $L = 3$, it combines the current and previous three quarters. The longer-window measures are intended to capture more persistent differences in managers' reliance on a given information signal while reducing the influence of quarter-specific estimation noise.

Table 3 reports descriptive statistics for the propensity measures across alternative estimation windows. Both measures are centered close to zero, but their dispersion declines as the estimation window lengthens. The standard deviation of $\text{PROP}_{\Delta Se}^{\text{All}}$ decreases from 1.012 for $L = 0$ to 0.440 for $L = 3$. A similar pattern emerges for $\text{PROP}_{\Delta Se}^{\text{Rel}}$. The narrowing of the percentile ranges indicates that longer estimation windows smooth transitory fluctuations and produce more stable measures of managers' reliance on news.

Table 3: Descriptive Statistics of News Sentiment Propensity Measures

This table reports descriptive statistics for the news sentiment propensity measures constructed using different estimation windows. $\text{PROP}_{\Delta Se}^{\text{All}}$ denotes the propensity to trade on changes in overall news sentiment, while $\text{PROP}_{\Delta Se}^{\text{Rel}}$ is based on changes in high-relevance news sentiment. The propensity measures are constructed following Equation (5.2) using inverse-variance weighted averages of estimated trading sensitivities. $L = 0$ uses only the current quarter and $L = 3$ combines the current and previous three quarters.

Estimation Window	Variable	Mean	SD	P1	P25	Median	P75	P99	N
$L = 0$	$\text{PROP}_{\Delta Se}^{\text{All}}$	-0.002	1.012	-3.212	-0.498	-0.000	0.496	3.149	150,121
	$\text{PROP}_{\Delta Se}^{\text{Rel}}$	-0.001	0.958	-3.113	-0.450	0.000	0.453	3.007	150,121
$L = 3$	$\text{PROP}_{\Delta Se}^{\text{All}}$	0.001	0.440	-1.372	-0.221	0.000	0.225	1.317	123,204
	$\text{PROP}_{\Delta Se}^{\text{Rel}}$	0.004	0.403	-1.264	-0.190	0.001	0.202	1.235	123,204

5.2 News Sentiment Propensity and Future Fund Performance

We next examine whether greater reliance on news sentiment is associated with subsequent fund performance. For each propensity measure, we estimate fund-level panel regressions of future risk-adjusted performance on news trading propensity, fund characteristics, and other information-reliance controls:

$$\text{MAR}_{m,t+1} = \alpha + \beta \text{PROP}_{X,m,t} + \theta' \text{Controls}_{m,t} + \eta_m + \lambda_{t+1} + \varepsilon_{m,t+1}, \quad (5.3)$$

where $\text{MAR}_{m,t}$ denotes the performance of fund m at quarter t calculated by the mean value of monthly abnormal return over three months within the quarter, $\text{PROP}_{X,m,t}$ is the news trading propensity measure, η_m represents fund fixed effects, and λ_{t+1} represents quarter fixed effects. The control variables include fund size, age, expense ratio, turnover, past fund flows, and past abnormal

performance.

Table 4 reports the results. Our baseline performance measure is the quarterly mean of monthly abnormal return estimated using the Carhart four-factor model. Columns (1) and (2) use propensity measures estimated from the current quarter only ($L = 0$), whereas Columns (3) and (4) use propensity measures based on the current and previous three quarters ($L = 3$).

Table 4: News Sentiment Propensity and Future Fund Performance

This table reports panel regressions of future fund performance on news sentiment propensity measures. The dependent variable is calculated as the mean abnormal return over the three months in the quarter, with abnormal return derived from the four-factor model of Carhart (1997). PROP measures the strength of a fund manager's portfolio adjustment in response to a particular type of information. Controls include one-quarter lagged values of fund size, expense ratio (EXP), age, turnover, fund flow (MF), and monthly abnormal return (MAR). Columns (1) and (2) use propensity measures constructed using the current quarter only ($L = 0$), whereas Columns (3) and (4) use propensity measures constructed from the current and previous three quarters ($L = 3$). All regressions include the full set of control variables together with fund and quarter fixed effects. Coefficients are reported with t -statistics in parentheses. Statistical significance is denoted by ***, **, and * at the 1%, 5%, and 10% levels, respectively. Data is from 2001Q2 to 2025Q2.

	$L = 0$		$L = 3$	
	(1) Overall	(2) High Relevance	(3) Overall	(4) High Relevance
$\text{PROP}_{\Delta Se}^{\text{All}}$	0.0013 (0.41)		0.0125 (1.57)	
$\text{PROP}_{\Delta Se}^{\text{Rel}}$		0.0083** (2.47)		0.0248** (2.29)
Controls	Yes	Yes	Yes	Yes
Fund FE	Yes	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes	Yes
Observations	150,121	150,121	123,204	123,204
Within R^2	0.0063	0.0064	0.0060	0.0061

The results indicate that not all forms of news sentiment contribute equally to investment performance. The propensity to trade on changes in overall news sentiment is not significantly associated with future fund performance regardless of the estimation window. The estimated coefficients remain statistically insignificant for both $L = 0$ and $L = 3$, suggesting that simply responding more strongly to changes in aggregate news sentiment does not, on average, improve subsequent investment performance.

However, the propensity to trade on changes in high-relevance news sentiment is positively associated with future performance. A one-unit increase in $\text{PROP}_{\Delta Se}^{\text{Rel}}$ is associated with 0.83 and 2.48 basis points higher monthly abnormal return when the propensity measure is constructed using only the current quarter and using the current and previous three quarters, respectively. On an annualized basis, these estimates correspond to approximately 0.10% and 0.30% higher abnormal return. This pattern suggests that managers who consistently incorporate highly relevant news

into their investment decisions subsequently generate higher abnormal returns.

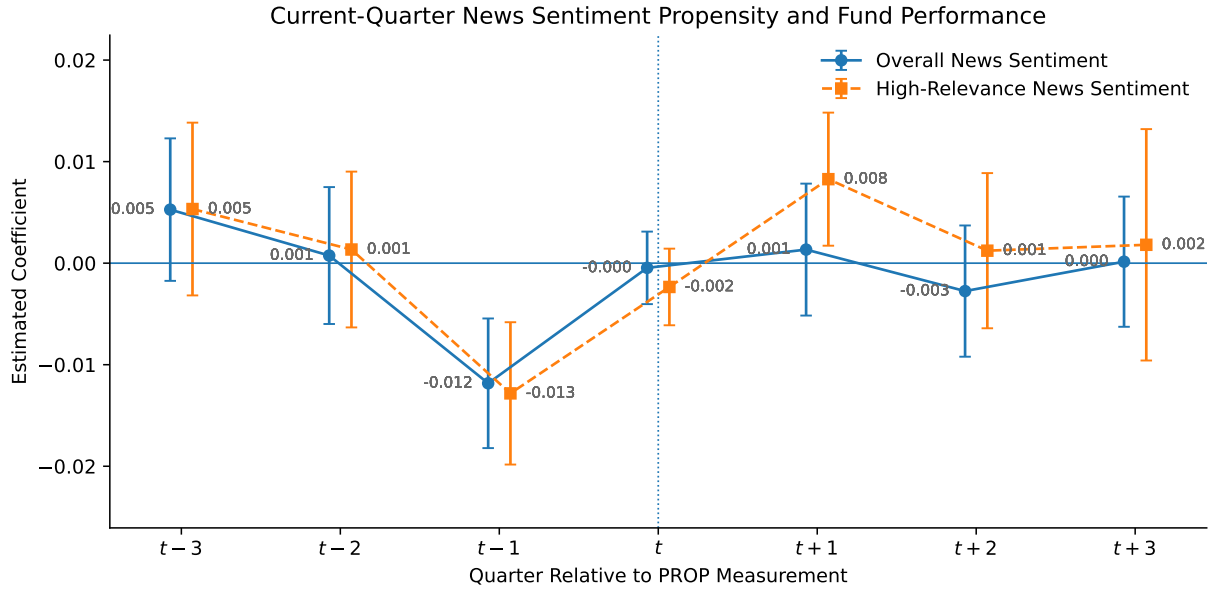
The difference between the propensity to trade on aggregate and high-relevance news sentiment suggests that performance is not associated with responding to information changes per se, but rather with selectively responding to more relevant news signals. Therefore, the skill-specific attribute is revealed in the identification and exploitation of material information embedded within the large volumes of news. The stronger association observed for the longer estimation window is also consistent with the interpretation that news trading propensity reflects a persistent managerial characteristic rather than transitory trading behavior. By combining estimated trading sensitivities over multiple quarters, the propensity measure reduces quarter-specific estimation noise and more accurately captures managers' long-run reliance on firm-specific news. Consequently, the positive relation between high-relevance news sentiment propensity and future performance becomes more pronounced when the propensity measure is constructed using a longer historical window.

Figure 1 examines the dynamic relation between news sentiment trading propensity and subsequent fund performance. Panel A reports the results for propensity measures constructed using only the current quarter. The estimated coefficients fluctuate around zero before and during the propensity measurement period. A notable exception occurs at $t - 1$, where both overall and high-relevance news sentiment propensities exhibit a significantly negative association with fund performance. This pattern suggests that funds displaying greater subsequent reliance on news sentiment may have experienced weaker performance in the preceding quarter. One possible interpretation is that managers increase their reliance on news, particularly highly relevant news, in response to prior underperformance, followed by a short-term performance recovery. Following the measurement quarter, the coefficient on high-relevance news sentiment propensity becomes positive at $t + 1$ and generally remains larger than the corresponding coefficient on overall news sentiment propensity. Nevertheless, the current-quarter propensity measure does not reveal a particularly persistent dynamic pattern. The primary implication from Panel A is that the relevance of news appears to matter: trading propensity based on highly relevant news is more strongly associated with subsequent performance than propensity based on overall news sentiment.

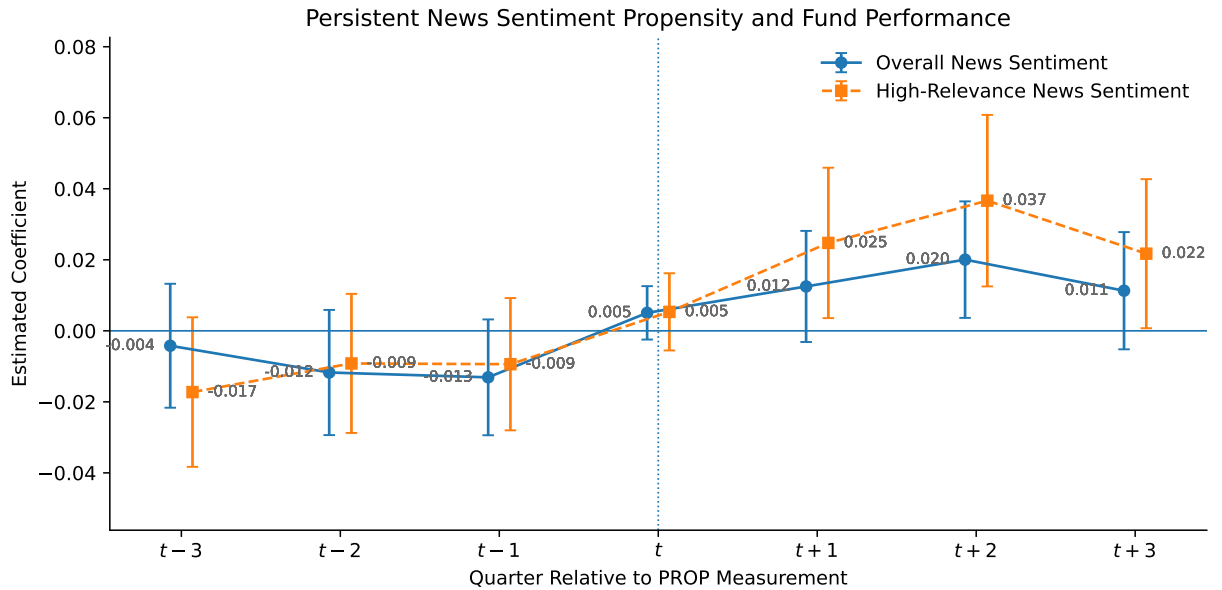
Panel B presents a clearer and more persistent pattern using the four-quarter precision-weighted propensity measures. The coefficients on both propensity measures are negative but statistically imprecise in the periods preceding the measurement quarter. After quarter t , however, the coefficients turn positive and increase substantially. The association is particularly pronounced for high-relevance news sentiment propensity, whose coefficient rises from approximately 0.025 at $t + 1$ to 0.037 at $t + 2$, before declining to 0.022 at $t + 3$. The overall news sentiment propensity follows a similar but weaker pattern, reaching its largest coefficient of approximately 0.020 at $t + 2$. These results suggest that a propensity measure constructed over multiple quarters captures a more persistent dimension of managers' information-processing behavior and that sustained reliance on highly relevant news is associated with stronger subsequent fund performance.

Figure 1: Dynamic Relation between News Sentiment Propensity and Fund Performance

This figure reports the estimated coefficients from panel regressions of quarterly fund performance on news sentiment propensity measures. The horizontal axis indicates the timing of the dependent variable relative to the propensity measure, where quarter t denotes the quarter in which the propensity measure is constructed. Fund performance is calculated as the mean abnormal return over the three months in the quarter, with abnormal return derived from the four-factor model of Carhart (1997). Negative values on the horizontal axis represent regressions using past fund performance (pre-periods), while positive values represent regressions using future fund performance. The vertical axis reports the estimated coefficient on the news sentiment propensity measure. Panel A uses propensity measures constructed from the current quarter only ($L = 0$), whereas Panel B uses propensity measures constructed from the current and previous three quarters ($L = 3$). All regressions include the full set of control variables, together with fund and quarter fixed effects. The shaded bands represent 95% confidence intervals based on standard errors. Data is from 2001Q2 to 2025Q2.



(a) Current-Quarter News Sentiment Propensity



(b) Persistent News Sentiment Propensity

Generally, the dynamic evidence reinforces the distinction between general and highly relevant news. Persistent reliance on highly relevant news sentiment is associated with a stronger and more sustained improvement in subsequent fund performance, with the effect peaking approximately two quarters after the propensity measure is observed. By contrast, the performance association for general news sentiment is smaller and less consistently distinguishable from zero. These findings are consistent with the interpretation that the investment value of news trading depends on managers' sustained ability to identify and act on relevant firm-specific information.

6 How Does News Trading Contribute to Fund Performance?

The preceding analysis shows that mutual funds differ significantly in their reliance on firm-specific news and that persistent reliance on highly relevant news sentiment is positively associated with future risk-adjusted performance. We next investigate the conditions under which news-based trading is most likely to create and dampen value. In particular, we examine three information environments that place different demands on managers' information-processing ability: variation in news abundance and sentiment dispersion across buying and selling, disagreement between analyst recommendations and firm-specific news, and changes in macroeconomic uncertainty. Together, these analyses provide evidence on when selective reliance on news is most informative about managerial ability.

6.1 News Abundance and Dispersion: Buy-Side versus Sell-Side Responses

Because news sentiment changes are directional, their propensity scores already capture whether managers trade with or against the signal, making a separate buy–sell analysis less informative. In contrast, news coverage, volume, and sentiment dispersion are non-directional. We therefore examine separately managers' propensity to respond to news coverage, news volume, and sentiment dispersion when buying and selling stocks. This distinction is important because greater information abundance and greater information dispersion capture different informational challenges. A large volume of news increases the amount of information managers must process and may disperse limited attention, whereas greater sentiment dispersion reflects heterogeneous or conflicting assessments that may create greater scope for selective interpretation.

Panel A of Table 5 examines the propensity to trade in news-covered stocks. In the current-quarter specifications, both buy-side and sell-side coverage propensities are positively associated with subsequent performance. The coefficients are statistically significant for both general and high-relevance news coverage, with somewhat larger estimates on the sell side. These findings suggest that managers who respond selectively to the presence of firm-specific news may make more informative portfolio decisions in the short run, particularly when reducing existing positions.

The positive association, however, does not persist over longer estimation windows. When news coverage propensity is constructed using the current and previous three quarters, the coefficients

become statistically insignificant for both purchases and sales. This pattern suggests that the short-run performance value of responding to news coverage may reflect timely reactions to particular firm-specific developments rather than a persistent advantage from systematically trading in news-covered stocks.

Panel B considers news volume and reveals a different pattern. In the current-quarter specification, the propensity to buy stocks receiving greater overall news coverage is positively but only marginally associated with future performance. Over the longer estimation window, however, persistent reliance on overall news volume is negatively associated with subsequent performance for both purchases and sales. The negative coefficients are statistically significant at the 5% level. However, the corresponding coefficients based on highly relevant news volume are statistically insignificant.

These findings indicate that a persistent tendency to trade simply because more news is available does not create outperformance. Greater news abundance may increase attention demands without proportionally increasing economically useful information. Managers who systematically respond to a large volume of general news may therefore devote trading capacity to information that is repetitive, tangential, or already widely incorporated into market prices. The absence of a similar negative relation for highly relevant news volume further suggests that information quality matters more than information quantity.

Panel C turns to sentiment dispersion. The results reveal an important asymmetry between purchases and sales. In the current-quarter specifications, the propensity to buy stocks with greater dispersion in highly relevant news sentiment is positively associated with subsequent performance, whereas the propensity to sell stocks in response to broader sentiment dispersion is negatively associated with performance. The remaining coefficients are generally statistically insignificant, particularly over the longer estimation window.

One interpretation is that heterogeneous news creates opportunities for selective information processing, but the value of doing so depends on how managers act on that disagreement. Buying in response to dispersion among highly relevant news items may reflect a manager's willingness to form a favorable view when public information is heterogeneous, potentially revealing superior ability to identify underappreciated positive information. By contrast, selling in response to broad sentiment disagreement may reflect defensive reactions to noisy or ambiguous information rather than superior interpretation.

Overall, the evidence highlights a distinction between information abundance and information heterogeneity. More news does not improve investment decisions, and persistent responsiveness to general news volume is even associated with weaker future performance. In contrast, heterogeneous information can create opportunities for managers who selectively process economically relevant signals. The results therefore suggest that the value of news trading depends not on the sheer amount of public information available, but on managers' ability to identify and act on the most informative dimensions of that environment.

Table 5: News Abundance and Dispersion: Buy-Side versus Sell-Side Responses

This table reports panel regressions of future fund performance on buy-side and sell-side news trading propensity. The dependent variable is calculated as the mean abnormal return over the three months in the quarter, with abnormal return derived from the four-factor model of Carhart (1997). Panel A examines propensity based on the presence of news coverage, Panel B examines propensity based on news volume, and Panel C examines propensity based on news sentiment dispersion. The propensity measures are constructed following the procedure described in Section 5.1, replacing the information variable X with the corresponding news indicator (i.e., NewsCov, NVol, or SentStd). The propensity measures reported for buy-side and sell-side responses are estimated separately using only buying and selling observations, respectively. Because portfolio holding changes are negative for sales, we use the absolute value of portfolio holding changes in the sell-side analysis to facilitate interpretation, such that larger values indicate more intensive selling. Columns (1)–(4) use propensity measures constructed from the current quarter only ($L = 0$), whereas Columns (5)–(8) use the current and previous three quarters ($L = 3$). All regressions include the full set of fund controls together with fund and quarter fixed effects. Coefficients are reported with t -statistics in parentheses. Statistical significance is denoted by ***, **, and * at the 1%, 5%, and 10% levels, respectively.

	$L = 0$				$L = 3$			
	Buy		Sell		Buy		Sell	
Panel A: News Coverage								
PROP ^{All} _{NewsCov}	0.0197*** (2.67)		0.0307*** (4.05)		0.0170 (0.77)		0.0044 (0.23)	
PROP ^{Rel} _{NewsCov}		0.0202*** (2.73)		0.0308*** (4.06)		0.0167 (0.75)		0.0058 (0.30)
Within $R^2\%$	0.59	0.59	0.86	0.86	0.62	0.62	0.92	0.93
Panel B: News Volume								
PROP ^{All} _{NVol}	0.0446* (1.92)		-0.0258 (-0.97)		-0.1410** (-2.47)		-0.1016** (-2.03)	
PROP ^{Rel} _{NVol}		-0.0019 (-0.20)		-0.0043 (-0.39)		-0.0198 (-0.76)		-0.0017 (-0.08)
Within $R^2\%$	0.59	0.59	0.86	0.86	0.63	0.62	0.93	0.93
Panel C: News Sentiment Dispersion								
PROP ^{All} _{SentStd}	0.0011 (0.95)		-0.0033** (-2.47)		0.0056* (1.82)		-0.0037 (-1.54)	
PROP ^{Rel} _{SentStd}		0.0029*** (2.86)		-0.0013 (-1.06)		0.0028 (1.05)		-0.0000 (-0.03)
Within $R^2\%$	0.59	0.60	0.86	0.86	0.62	0.62	0.93	0.92
Observations	133,151	133,151	110,749	110,749	109,651	109,651	98,998	98,998
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fund FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

6.2 News as a Wake-Up Call: Trading on Conflicting Signals

Conflicting analyst and news signals provide a particularly informative setting in which to examine managers' information-processing ability. When analyst recommendations and firm-specific news point in the same direction, managers may adjust their portfolios without having to discriminate between competing information sources. When the two signals disagree, however, managers must determine which source deserves greater weight. Such disagreement may therefore function as a "wake-up call" that prompts managers to reassess their existing beliefs and devote greater attention to the underlying firm.

For the analysis in this section, the propensity measures are constructed following the procedure described in Section 5.1, replacing the information variable X with the corresponding conflict indicator (i.e., Conflict , ConfAna , or ConfNews). These variables capture overall conflicting signals between high-relevance news sentiment and analyst recommendation changes, conflicts where managers trade in the direction of analyst recommendations, and conflicts where managers trade in the direction of news sentiment, respectively.

Panel A of Table 6 examines how managers adjust their portfolio holdings in response to conflicting information. The propensity measures reported for buy-side and sell-side responses are estimated separately using only purchase and sale observations, respectively. In the full sample, the coefficient of the general conflict indicator is statistically insignificant. However, the buy-sell decomposition reveals significant changes in trading behavior. For purchases, the positive coefficients indicate that managers buy more aggressively when confronted with conflicting signals. For sales, because the dependent variable is defined such that a larger negative portfolio change represents more intensive selling, the negative coefficients imply that managers sell more aggressively. The lack of an aggregate effect therefore reflects the offsetting nature of purchases and sales in the signed holding-change measure rather than an absence of trading responses. The response is substantially stronger for purchases. When managers follow either the analyst signal or the news signal, the buy-side coefficients are approximately 0.189. By comparison, the corresponding sell-side coefficients are considerably smaller. Following the analyst signal is positively associated with selling, whereas the coefficient for following the news signal is statistically insignificant. These findings suggest that conflicting information primarily influences stock-selection and purchase decisions. When reducing existing positions, managers appear to place greater weight on analyst recommendations than on news signals.

Table 6: Trading on Conflicting Analyst and News Signals

This table examines how mutual funds respond to conflicting analyst and news signals and whether the corresponding trading propensities predict future fund performance. For the analysis in this section, the propensity measures are constructed following the procedure described in Section 5.1, replacing the information variable X with the corresponding conflict indicator (i.e., Conflict, ConfAna, or ConfNews). These variables capture overall conflicting signals between high-relevance news sentiment and analyst recommendation changes, conflicts where managers trade in the direction of analyst recommendations, and conflicts where managers trade in the direction of news sentiment, respectively. Panel A separately reports stock-level regressions for buying and selling. Panel B reports fund-level regressions of future abnormal performance on conflict-trading propensity, including the full set of fund level controls. Coefficients are reported with t -statistics in parentheses. Standard errors in Panel A are clustered by stock. Statistical significance is denoted by ***, **, and * at the 1%, 5%, and 10% levels, respectively.

Panel A: Buy- and Sell-Side Responses to Conflicting Signals						
	Buy			Sell		
	(1) Conflict	(2) Follow Analyst	(3) Follow News	(4) Conflict	(5) Follow Analyst	(6) Follow News
Conflict	0.0039*** (5.18)			-0.0025*** (-4.10)		
ConfAna		0.1894*** (111.86)			-0.0029*** (-4.11)	
ConfNews			0.1895*** (114.85)			-0.0012 (-1.63)
Observations	7,977,302	7,977,302	7,977,302	5,124,760	5,124,760	5,124,760
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fund-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Clustered by Stock	Yes	Yes	Yes	Yes	Yes	Yes
Within $R^2\%$	0.45	1.52	1.52	2.72	2.72	2.72

Panel B: Conflict-Trading Propensity and Future Fund Performance						
	$L = 0$			$L = 3$		
	(1) Conflict	(2) Follow Analyst	(3) Follow News	(4) Conflict	(5) Follow Analyst	(6) Follow News
PROP _{Conflict}	-0.0007 (-0.04)			0.0418 (0.88)		
PROP _{ConfAna}		-0.0221** (-2.35)			-0.0386 (-1.39)	
PROP _{ConfNews}			0.0162 (1.53)			0.0879*** (3.90)
Observations	150,121	150,121	150,121	123,204	123,204	123,204
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fund FE	Yes	Yes	Yes	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Within $R^2\%$	0.48	0.48	0.48	0.47	0.47	0.48

Panel B examines whether these differences in conflict resolution predict future fund performance for the propensity calculated based on the full sample. The overall propensity to trade during periods of disagreement is not significantly associated with subsequent performance under either the current-quarter or longer-window specification. Thus, responding more strongly to conflicting information alone does not appear to create investment value.

A sharper distinction emerges when we separate managers according to the information source they tend to follow. In the current-quarter specification, greater propensity to follow analyst recommendations when analysts and news disagree is negatively associated with subsequent risk-adjusted performance. The coefficient is -0.0221 and statistically significant at the 5% level. By contrast, the corresponding coefficient on news-following propensity is positive but statistically insignificant.

The longer-window estimates reveal a stronger performance advantage for managers who consistently follow news. The estimated effect of $\text{PROP}_{\text{ConfNews}}$ in Column (6) implies approximately 8.79 basis points higher abnormal return per month, or about 1.05% on an annualized basis. In contrast, trading aligned with analyst recommendations under conflicting conditions ($\text{PROP}_{\text{ConfAna}}$) has an insignificantly negative effect.

The difference between the short- and longer-window estimates suggests that the value of news-based trading lies in persistent rather than isolated reliance on firm-specific information. A single quarter of news-following behavior may reflect temporary portfolio circumstances or noise, whereas a sustained tendency to follow highly relevant news when information sources disagree is more likely to capture a stable ability to evaluate competing public signals.

Taken together, the results indicate that conflicting information creates value only when managers resolve it effectively. The presence of disagreement alone does not predict superior performance. Instead, persistent reliance on firm-specific news rather than analyst recommendations during periods of conflict is associated with higher subsequent risk-adjusted return. These findings are consistent with the view that disagreement acts as a wake-up call, creating opportunities for managers who are better able to identify and consistently follow the more informative signal.

6.3 News Trading under Macro Uncertainty

The value of firm-specific news may also depend on the broader macroeconomic environment. When aggregate uncertainty is high, market-wide shocks may make it more difficult to separate firm-specific developments from changes in general economic conditions. We therefore examine whether the relation between news trading propensity and future fund performance varies with market uncertainty, measured using the VIX. Table 7 reports the results. The current-quarter specifications combine $L = 0$ propensity measures with quarterly VIX, whereas the longer-window specifications combine $L = 3$ propensity measures with VIX averaged over the current and previous three quarters.

Panel A focuses on news coverage and sentiment. The performance benefit of trading on high-

relevance news coverage weakens as short-run market uncertainty increases⁶. In the current-quarter specification, the coefficient on high-relevance news coverage propensity is positive and statistically significant, while its interaction with quarterly VIX is negative and significant. Thus, managers who respond more strongly to highly relevant news coverage tend to achieve better future performance when aggregate uncertainty is relatively low, but this advantage diminishes as uncertainty rises.

A similar pattern emerges for news sentiment change. In the current-quarter specification, the coefficient on overall sentiment propensity is positive and marginally significant, while its interaction with VIX is negative and also marginally significant. The longer-window results are considerably stronger: persistent propensity to trade on overall news sentiment is positively associated with future performance, whereas its interaction with one-year VIX is negative and highly statistically significant. These estimates suggest that managers who consistently incorporate changes in firm-specific sentiment perform better under relatively stable macroeconomic conditions, but that this performance advantage declines when aggregate uncertainty remains elevated.

The effect of macroeconomic uncertainty is somewhat weaker for highly relevant sentiment changes. The current-quarter interaction is economically small and statistically insignificant. In the longer-window specification, the main coefficient on high-relevance sentiment propensity is positive and statistically significant, while its interaction with one-year VIX is negative and marginally significant. This pattern suggests that highly relevant firm-specific information may retain more of its value during uncertain periods than broader news sentiment.

Panel B examines trading under conflicting analyst and news signals. In the current-quarter specifications, both the general conflict-trading propensity and the propensity to follow news during conflict are positively associated with future performance. Their interactions with quarterly VIX are negative, indicating that the performance value of resolving conflicting information generally declines as short-run uncertainty increases. The negative interaction is statistically significant for news-following propensity, suggesting that aggregate uncertainty makes it more difficult to extract value from firm-specific news even when managers choose news over competing analyst signals.

The longer-window conflict results reveal a different pattern for analyst-following behavior. Persistent analyst-following propensity is negatively associated with future performance, whereas its interaction with one-year VIX is positive and statistically significant. This implies that the negative performance association of relying on analyst recommendations during conflict becomes less pronounced as persistent macroeconomic uncertainty rises. Generally, it suggests that increased macroeconomic uncertainty weakens the influence of firm-specific information on investment outcomes. Consequently, even the negative performance effect associated with following analyst recommendations during periods of conflicting information is attenuated under higher levels of market uncertainty.

By contrast, persistent news-following propensity remains positively associated with future performance, although the interaction with one-year VIX is statistically insignificant. The evidence

⁶Using news coverage from the full news sample yields very similar results. To avoid redundancy, we report only the results based on the high-relevance news sample.

therefore continues to suggest that managers who consistently rely on firm-specific news when information sources disagree tend to outperform, but it does not establish that this longer-run advantage varies systematically with persistent macroeconomic uncertainty.

Table 7: News Trading Propensity and Fund Performance under Macro Uncertainty

This table reports panel regressions of future fund performance on news trading propensity, market uncertainty, and their interaction. The dependent variable is realized Carhart four-factor alpha over the subsequent 24 months. Panel A examines propensity to trade on news coverage, changes in overall news sentiment, and changes in high-relevance news sentiment. Panel B examines overall conflict-trading propensity and whether funds follow analyst recommendations or news when the two signals conflict. Columns (1)–(3) use current-quarter propensity measures ($L = 0$) and current-quarter VIX, while Columns (4)–(6) use propensity measures constructed from the current and previous three quarters ($L = 3$) and the average VIX over the same four-quarter period. Coefficients are reported with t -statistics in parentheses. Statistical significance is denoted by ***, **, and * at the 1%, 5%, and 10% levels, respectively.

Panel A: News Coverage and Sentiment						
	Current-Quarter Uncertainty			One-Year Uncertainty		
	(1) PROP ^{Rel} _{NewsCov}	(2) PROP ^{All} _{ΔSe}	(3) PROP ^{Rel} _{ΔSe}	(4) PROP ^{Rel} _{NewsCov}	(5) PROP ^{All} _{ΔSe}	(6) PROP ^{Rel} _{ΔSe}
PROP	0.1065** (2.23)	0.0176* (1.77)	0.0124 (1.18)	0.0842 (0.74)	0.0843*** (3.22)	0.0626** (2.24)
VIX	-0.0008* (-1.68)	-0.0011** (-2.23)	-0.0011** (-2.20)	-0.0021*** (-3.42)	-0.0022*** (-3.70)	-0.0022*** (-3.64)
PROP × VIX	-0.0060** (-2.23)	-0.0009* (-1.79)	-0.0002 (-0.48)	-0.0028 (-0.54)	-0.0044*** (-3.48)	-0.0025* (-1.73)
Within $R^2\%$	0.71	0.71	0.71	0.72	0.72	0.72
Panel B: Conflicting Analyst and News Signals						
	Current-Quarter Uncertainty			One-Year Uncertainty		
	(1) Conflict	(2) Follow Analyst	(3) Follow News	(4) Conflict	(5) Follow Analyst	(6) Follow News
PROP	0.0882* (1.71)	0.0204 (0.73)	0.0649** (2.31)	0.0610 (0.47)	-0.1909*** (-2.66)	0.1267* (1.85)
VIX	-0.0011** (-2.27)	-0.0011** (-2.21)	-0.0010** (-2.08)	-0.0022*** (-3.61)	-0.0023*** (-3.93)	-0.0021*** (-3.51)
PROP × VIX	-0.0049* (-1.86)	-0.0017 (-1.22)	-0.0030** (-2.05)	-0.0008 (-0.12)	0.0099** (2.56)	-0.0041 (-1.19)
Within $R^2\%$	0.71	0.71	0.71	0.72	0.72	0.72
Observations	150,121	150,121	150,121	123,204	123,204	123,204
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fund FE	Yes	Yes	Yes	Yes	Yes	Yes
Quarter FE	No	No	No	No	No	No

Taken together, the results indicate that macroeconomic uncertainty generally weakens the performance value of firm-specific news trading. The negative interaction effects are particularly evident for news coverage, overall news sentiment, and short-run conflict trading. These findings are consistent with the view that increased aggregate uncertainty makes it more difficult to isolate and exploit firm-specific information because market-wide shocks become increasingly important for asset prices. At the same time, the relatively weaker interactions for highly relevant news sentiment suggest that information quality may help preserve some of the value of firm-specific news even under more uncertain market conditions.

Overall, the evidence in this section shows that news trading contributes to fund performance only selectively. Its value is strongest when managers consistently distinguish informative news from competing analyst signals, avoid reacting mechanically to large quantities of general news, and operate in environments in which firm-specific information can be interpreted with relatively less interference from aggregate uncertainty. These findings reinforce the broader conclusion that successful news trading depends not simply on responsiveness to public information, but on managers' ability to filter, interpret, and selectively act on the most informative signals.

7 Do Investors Reward News Trading Skill?

The preceding analyses show that mutual fund managers differ systematically in how they use firm-specific news and that some forms of news reliance are associated with superior future performance. We next examine whether investors recognize these differences and allocate capital accordingly. If investors are able to identify managers with superior news-processing ability, funds exhibiting more valuable forms of news trading should subsequently attract greater inflows.

To examine this question, we estimate fund-level panel regressions of subsequent fund flows on alternative news trading propensity measures:

$$MF_{m,t+1} = \alpha + \beta PROP_{X,m,t} + \theta' Controls_{m,t} + \eta_m + \lambda_{t+1} + \varepsilon_{m,t+1}, \quad (7.1)$$

where $MF_{m,t+1}$ denotes subsequent fund flow, $PROP_{X,m,t}$ captures fund m 's propensity to trade on information signal X , η_m denotes fund fixed effects, and λ_{t+1} denotes quarter fixed effects. The regressions include the full set of fund characteristics controls used in the performance analysis.

Investors do not systematically respond to short-term news-trading propensity measured using only the current quarter. Table 8 reports results based on the four-quarter precision-weighted propensity measures. The relation between news trading propensity and subsequent fund flows varies substantially across different dimensions of information use. In particular, investors do not appear to reward managers simply for responding more strongly to greater quantities of news. The coefficients on the propensity to trade on overall news volume and high-relevance news volume are both negative and marginally statistically significant. This pattern suggests that greater sensitivity to news abundance is not perceived as evidence of superior investment ability and may even be

associated with weaker subsequent capital flows.

Table 8: News Trading Propensity and Fund Flows

This table reports panel regressions of future fund flows on news trading propensity measures. The dependent variable is future fund flow, measured as the mean monthly fund flow over the quarter. The propensity measures are constructed using the current and previous three quarters ($L = 3$). All regressions include the full set of fund characteristics, propensity measures based on firm fundamentals, fund fixed effects, and quarter fixed effects. Coefficients are reported with t -statistics in parentheses. Statistical significance is denoted by ***, **, and * at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
$PROP_{NCov}^{All}$	-0.9028* (-1.68)						
$PROP_{NCov}^{Rel}$		-0.4562* (-1.65)					
$PROP_{\Delta Se}^{All}$			0.0741 (0.98)				
$PROP_{\Delta Se}^{Rel}$				0.1036* (1.68)			
$PROP_{Conflict}$					-0.2284 (-0.70)		
$PROP_{ConfAna}$						0.1852 (1.04)	
$PROP_{ConfNews}$							0.3236* (1.83)
Observations	123,204	123,204	123,204	123,204	123,204	123,204	123,204
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fund FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Within $R^2\%$	1.28	1.28	1.28	1.28	1.27	1.27	1.27

By contrast, investors respond more favorably to managers who selectively incorporate economically meaningful firm-specific news rather than reacting broadly to changes in public sentiment. The propensity to trade on overall changes in news sentiment is not significantly related to subsequent fund flows, whereas the coefficient on high-relevance news sentiment propensity is positive and marginally significant. Economically, a one-unit increase in $PROP_{\Delta Se}^{Rel}$ is associated with a 10.36-basis-point increase in monthly fund flows, equivalent to approximately 1.24% on an annualized basis. These findings suggest that investors distinguish between broad reactions to public news and selective trading on more relevant information.

The results are informative when analyst recommendations and news convey conflicting signals. Neither the overall propensity to trade during conflict nor the propensity to follow analyst recommendations is significantly associated with subsequent fund flows. By contrast, the propensity to follow news when analyst recommendations and firm-specific news disagree enters positively and is

marginally statistically significant. A one-unit increase in $\text{PROP}_{\text{ConfNews}}$ is associated with a 32.36-basis-point increase in monthly fund flows, equivalent to approximately 3.88% on an annualized basis. This result mirrors the earlier performance evidence, which shows that persistent reliance on news during periods of disagreement is associated with higher future risk-adjusted return.

Taken together, the evidence suggests that investors can only partially distinguish between different extents of news-based trading. Greater responsiveness to the quantity of available news is not rewarded and is associated with weaker subsequent flows, whereas reliance on highly relevant sentiment and a persistent tendency to follow news when competing signals disagree are positively associated with investor capital allocation. The results therefore suggest that investors respond more favorably to selective forms of news processing that are also associated with superior subsequent performance.

8 Robustness Checks

This section examines whether our main findings are sensitive to three important empirical choices: the measurement of future fund performance, the treatment of extreme portfolio changes, and the construction of news-trading propensity. For brevity, we report the robustness results for our main specifications in this section. Additional robustness analyses for the remaining results are presented in the Appendix.

8.1 Alternative Performance Measurement

To ensure that our findings are not driven by the choice of fund performance measure, we repeat the baseline analysis using alternative measures of future abnormal performance. Specifically, we replace our baseline realized Carhart four-factor alpha with realized Carhart four-factor alpha estimated over a 36-month window and realized Fama–French five-factor alpha estimated over a 24-month window. The results are reported in Panel A of Table 9.

The main findings remain unchanged. The propensity to trade on overall news sentiment remains statistically insignificant under both alternative performance measures, whereas the propensity to trade on highly relevant news sentiment continues to exhibit a positive association with future fund performance. Likewise, managers’ propensity to follow news rather than analyst recommendations when the two information sources conflict remains positively and significantly related to subsequent performance under both alternative specifications. In contrast, neither the general conflict propensity nor the propensity to follow analyst recommendations during conflicting periods predicts future performance. Overall, the results indicate that the predictive value of news trading propensity is robust to alternative asset-pricing models and estimation horizons used to measure abnormal fund performance.

Table 9: Additional Tests and Robustness Checks

This table reports additional tests and robustness checks for the relation between news trading propensity and future fund performance. Panel A uses alternative performance measures: realized Carhart four-factor alpha over 36 months and realized Fama–French five-factor alpha over 24 months. Panel B assigns a 400% portfolio change to newly initiated positions when constructing the propensity measures. Panel C treats stock characteristics as separate information signals in the first-stage estimation and includes their corresponding propensity measures as controls in the performance regressions. All propensity measures are constructed using the current and previous three quarters. Coefficients are reported with t -statistics in parentheses. Statistical significance is denoted by ***, **, and * at the 1%, 5%, and 10% levels, respectively.

Panel A: Alternative Measures of Fund Performance										
	Carhart 4 (36M)	FF5 (24M)	Carhart 4 (36M)	FF5 (24M)	Carhart 4 (36M)	FF5 (24M)	Carhart 4 (36M)	FF5 (24M)	Carhart 4 (36M)	FF5 (24M)
$PROP_{\Delta Se}^{All}$	0.0103 (1.30)	0.0084 (1.01)								
$PROP_{\Delta Se}^{Rel}$			0.0192* (1.69)	0.0218** (2.02)						
$PROP_{Conflict}$					0.0582 (1.21)	0.0372 (0.74)				
$PROP_{ConfAna}$							-0.0223 (-0.76)	-0.0241 (-0.86)		
$PROP_{ConfNews}$									0.0957*** (4.32)	0.0712*** (2.89)
Within $R^2\%$	0.59	0.35	0.59	0.35	0.59	0.35	0.59	0.35	0.59	0.35
Panel B: Alternative Treatment of Newly Initiated Positions (New Position = 400%)										
$PROP_{\Delta Se}^{All}$	0.0039 (1.05)									
$PROP_{\Delta Se}^{Rel}$			0.0107* (1.86)							
$PROP_{Conflict}$					0.0216 (0.89)					
$PROP_{ConfAna}$							-0.0112 (-0.91)			
$PROP_{ConfNews}$									0.0328*** (3.41)	
Within $R^2\%$	0.60		0.60		0.61		0.60		0.61	
Panel C: Alternative First-Stage Model Specification										
$PROP_{\Delta Se}^{All}$	0.0094 (1.09)									
$PROP_{\Delta Se}^{Rel}$			0.0283** (2.46)							
$PROP_{Conflict}$					0.0806 (1.34)					
$PROP_{Conflict}^{Ana}$							-0.0347 (-1.12)			
$PROP_{Conflict}^{News}$									0.1268*** (4.64)	
Within $R^2\%$	0.61		0.62		0.62		0.61		0.62	
Controls	Yes		Yes		Yes		Yes		Yes	
Fund FE	Yes		Yes		Yes		Yes		Yes	
Quarter FE	Yes		Yes		Yes		Yes		Yes	

8.2 Alternative Portfolio Change Bound

Our baseline propensity measures assign newly initiated stock positions a portfolio holding change of 100% because percentage changes are otherwise undefined. To examine whether this treatment influences the results, we reconstruct all propensity measures by assigning newly initiated positions a portfolio change of 400%, following a more conservative treatment of large portfolio adjustments. The corresponding results are presented in Panel B of Table 9.

The empirical conclusions remain qualitatively unchanged. The propensity to trade on highly relevant news sentiment continues to be positively associated with future fund performance, whereas the propensity based on overall news sentiment remains insignificant. Similarly, the propensity to follow news during periods of disagreement between news and analyst recommendations remains strongly positive and statistically significant. Although the estimated coefficients become somewhat smaller in magnitude, their signs and statistical significance remain consistent with the baseline specification. These findings suggest that our results are not driven by the specific treatment of newly initiated portfolio positions when constructing portfolio holding changes.

8.3 Alternative Propensity Measurement

Our baseline propensity measures control for firm characteristics in the first-stage stock-level regressions 5.1, thereby isolating managers' responses to news after accounting for observable firm fundamentals. As an alternative specification, we instead treat analyst recommendation and stock characteristics as separate information signals, estimate their corresponding propensity measures, and include these propensity measures as controls in the second-stage fund performance regressions. Accordingly, the first-stage stock-level regressions in Equation 5.1 are estimated without additional control variables, so that each propensity measure reflects managers' response to an individual information signal in isolation. This approach allows stock characteristics to enter the investment process symmetrically with news while controlling for managers' reliance on traditional firm fundamentals and analyst recommendations. The results are reported in Panel C of Table 9.

The main conclusions remain robust under this alternative specification. The estimated coefficient on the propensity to trade on highly relevant news sentiment becomes even larger and remains statistically significant. Likewise, the propensity to follow news during periods of disagreement with analyst recommendations continues to exhibit a strong positive association with subsequent fund performance. By contrast, the propensities based on overall news sentiment, general conflict, and analyst-following remain statistically insignificant.

These results indicate that the documented relation between news trading propensity and future fund performance does not arise from managers' reliance on conventional firm characteristics and analyst recommendations. Instead, the evidence suggests that managers' ability to identify and exploit informative firm-specific news provides incremental explanatory power beyond their use of traditional fundamental information.

9 Conclusion

This paper examines whether mutual fund managers trade on firm-specific news and whether their news-trading behavior reflects a distinct form of skill that helps explain outperformance. Motivated by the growing abundance of publicly available information and the attention constraints faced by professional investors, we develop a fund-level measure of news trading propensity that captures the extent to which managers adjust their portfolios in response to different dimensions of firm-specific news. We then investigate whether this propensity reflects managerial skill and whether investors recognize these differences.

Our findings provide several insights. First, mutual fund managers do incorporate firm-specific news into their trading decisions. Portfolio adjustments are related not only to the presence and intensity of news coverage but also to changes in news sentiment, sentiment dispersion, and disagreement between news and analyst information. Moreover, managers distinguish between the quantity and the quality of information, responding more strongly to highly relevant news than to the broader news environment.

Second, not all forms of news trading generate investment value. Managers with a stronger propensity to trade on highly relevant news sentiment earn significantly higher future abnormal returns, whereas reliance on broader news coverage or overall news sentiment contributes little to subsequent performance. These findings suggest that managerial skill lies not in reacting more aggressively to public information, but in identifying and exploiting the subset of news that contains economically meaningful information about firm fundamentals.

Third, we provide evidence on the mechanisms through which selective news trading contributes to performance. We find that managers are subject to attention constraints. A higher propensity to trade on stocks with larger news volume dampens future fund performance. However, trading on news becomes particularly valuable when news sentiment conflicts with analyst recommendations, suggesting that disagreement across information sources helps direct managerial attention toward information that may otherwise be overlooked. In contrast, increased macroeconomic uncertainty weakens the performance benefits of firm-specific news trading, consistent with the view that aggregate shocks reduce the relative importance of firm-specific information and make it more difficult to distinguish informative signals from market-wide noise. Finally, we find suggestive evidence that investors recognize differences in news trading ability, with funds exhibiting stronger propensities to trade on informative news receiving more favorable flow responses.

Taken together, the findings indicate that news-trading skill is not reflected in the frequency or intensity with which managers respond to public information. Instead, it is reflected in their ability to allocate attention selectively, identify highly relevant signals, and resolve disagreement among competing sources of information. Public information is therefore not uniformly beneficial or detrimental to active managers. Its value depends on the type of signal, the information environment, the direction of the portfolio adjustment, and the persistence of the manager's response.

Overall, this paper shows that the ability to process news selectively represents an economically

meaningful dimension of active fund management. Managers who react broadly to information abundance do not outperform, whereas those who consistently identify and trade on highly relevant firm-specific signals achieve stronger subsequent performance. In an increasingly data-abundant financial environment, managerial skill lies not in processing more information, but in knowing which information deserves attention.

Declaration of Generative AI and AI-Assisted Technologies

No generative AI tools were used in the design, analysis, or interpretation of this study. ChatGPT was used solely for language editing and proofreading to improve clarity and readability.

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A Variable Description

Table 10: Variable Description.

Variable	Description
Risk and Return	
$R_{m,t}$ (%)	Raw return from CRSP at month t .
$ER_{m,t}$ (%)	Raw return in excess of the risk-free rate at month t .
$\alpha_{m,t}$ (%)	Alpha from the Carhart four-factor model estimated over months $t - 24$ to $t - 1$.
$\beta_{MKT_{m,t}}$	Market beta from the Carhart four-factor model estimated over months $t - 24$ to $t - 1$.
$\beta_{SMB_{m,t}}$	Size beta from the Carhart four-factor model estimated over months $t - 24$ to $t - 1$.
$\beta_{HML_{m,t}}$	Value beta from the Carhart four-factor model estimated over months $t - 24$ to $t - 1$.
$\beta_{MOM_{m,t}}$	Momentum beta from the Carhart four-factor model estimated over months $t - 24$ to $t - 1$.
$AR_{m,t}$ (%)	Monthly abnormal return at month t , calculated by Equation (3.1) and multiplied by 100.
$MAR_{m,t}$ (%)	Quarterly abnormal return at quarter t , calculated as the mean abnormal return over the three months within the quarter and multiplied by 100.
Flow	
$FL_{m,t}$ (%)	Monthly fund flow at month t , calculated by Equation (3.2) and multiplied by 100.
$MF_{m,t}$ (%)	Quarterly fund flow at quarter t , calculated as the mean monthly flow over the three months within the quarter and multiplied by 100.
Fund Characteristics	
$SIZE_{m,t}$	Log of total net assets in millions of dollars at quarter t .
$EXP_{m,t}$ (%)	Monthly expense ratio, calculated as the annual expense ratio divided by 12 and multiplied by 100.
$AGE_{m,t}$	Log of fund age in months at time t , measured since the first offer date.
$TURNOVER_{m,t}$ (%)	Fund turnover ratio at time t , multiplied by 100.
News	
$NewsCov_{i,t}^{All}$	Equals one if stock i is covered by at least one RavenPack news item within the full news sample in quarter t , and zero otherwise.
$NewsCov_{i,t}^{Rel}$	Equals one if stock i is covered by at least one RavenPack news item with a relevance score greater than 95% in quarter t , and zero otherwise.
$NVol_{i,t}^{All}$	Logarithm of one plus the number of RavenPack news items within the full news sample covering stock i in quarter t .
$NVol_{i,t}^{Rel}$	Logarithm of one plus the number of RavenPack news items with relevance scores greater than 95% covering stock i in quarter t .
$\Delta Se_{i,t}^{All}$	Change in high-relevance news sentiment from quarter $t - 1$ to quarter t . News sentiment is measured using RavenPack's Event Sentiment Score (ESS), based only on the full news sample.
$\Delta Se_{i,t}^{Rel}$	Change in high-relevance news sentiment from quarter $t - 1$ to quarter t . News sentiment is measured using RavenPack's Event Sentiment Score (ESS), based only on news items with relevance scores greater than 95%.

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Table 10 continued from previous page

Variable	Description
$\text{SentStd}_{i,t}^{\text{All}}$	Sentiment dispersion, measured as the standard deviation of RavenPack ESS scores within quarter t , using the full news sample.
$\text{SentStd}_{i,t}^{\text{Rel}}$	Sentiment dispersion, measured as the standard deviation of RavenPack ESS scores within quarter t , using only high-relevance news items with relevance scores greater than 95%.
$\text{Conflict}_{i,t}$	Conflict indicator. Equals one if analyst recommendations and high-relevance news sentiment move in opposite directions from quarter $t - 1$ to quarter t , and zero otherwise.
$\text{ConfAna}_{i,t}$	Equals one when $\text{Conflict}_{i,t} = 1$ and the portfolio adjustment follows analyst recommendations.
$\text{ConfNews}_{i,t}$	Equals one when $\text{Conflict}_{i,t} = 1$ and the portfolio adjustment follows news sentiment.
Analyst Recommendation and Stock Characteristics	
$\Delta\text{Re}_{i,t}$	Change in analyst recommendations for stock i from quarter $t - 1$ to quarter t .
$\text{MC}_{i,t}$	Firm size, measured as the logarithm of market capitalization at the end of quarter t .
$\text{BM}_{i,t}$	Book-to-market ratio of stock i , measured at the end of quarter t .
$\text{ROA}_{i,t}$	Return on assets of firm i , measured at the end of quarter t .
$\text{Ret}_{i,t}$	Stock return of firm i in quarter t .
$\text{TO}_{i,t}$	Stock turnover of firm i in quarter t , which is the natural log of one plus the trading volume divided by the stock's market capitalization.
Market Uncertainty	
$\text{VIX}_{i,t}$	Market uncertainty, measured using the CBOE Volatility Index (VIX). The quarterly value is calculated as the average VIX over quarter t .