

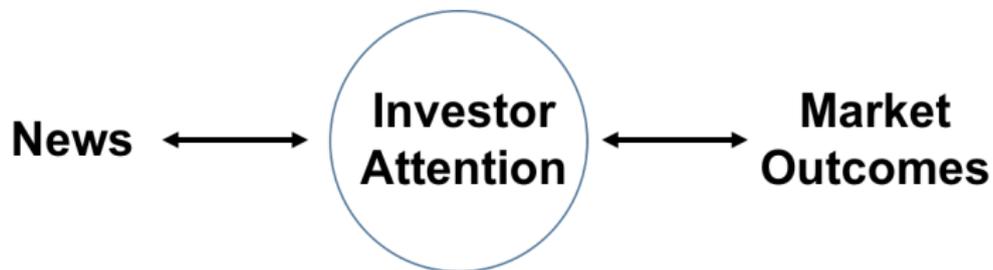
Complexity Aversion when *Seeking Alpha*

By Tarik Umar

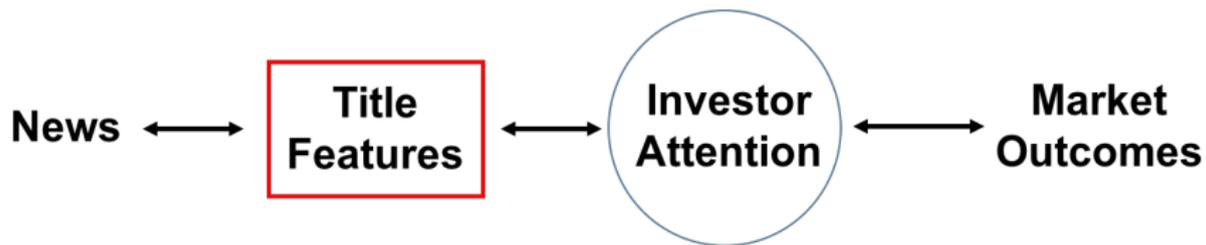
Rice University

December 31, 2017

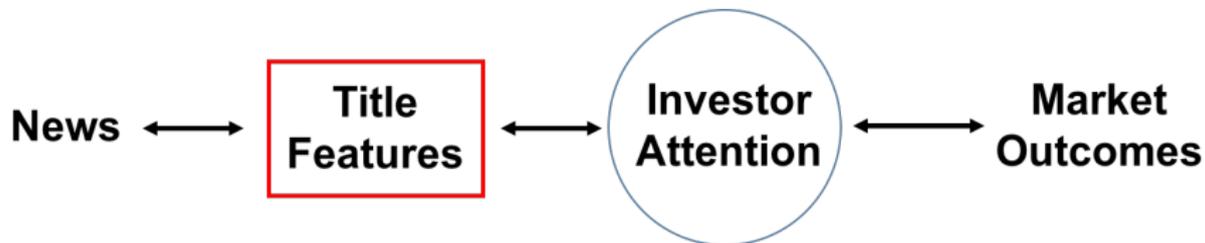
Investor Attention



Investor Attention

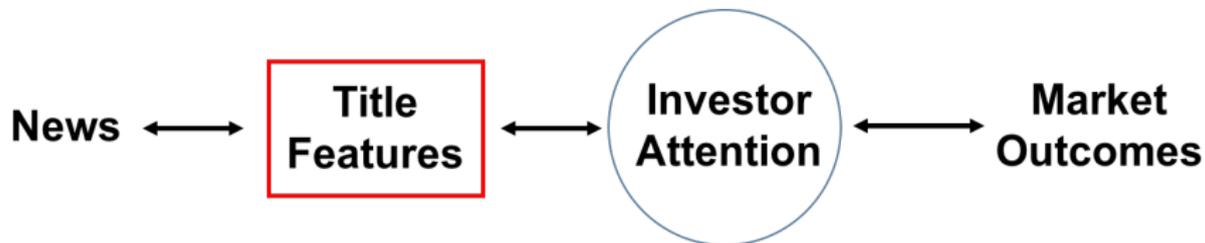


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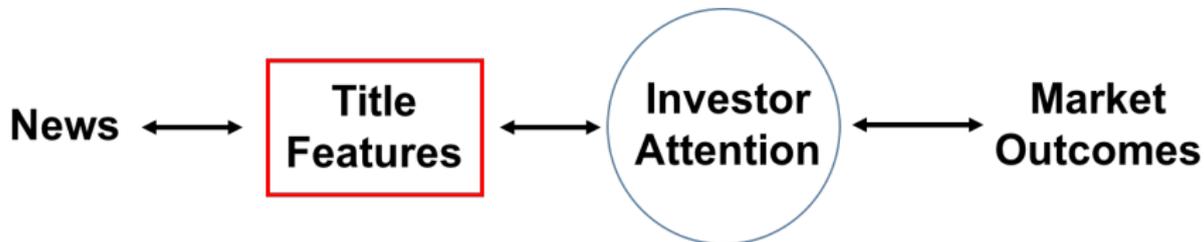
- Find title→attention, using field data with randomization
 - Investors attracted to short, simple, negative titles
 - More so for less-sophisticated investors

Investor Attention



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 - Investors attracted to short, simple, negative titles
 - More so for less-sophisticated investors
- Find attention→markets, instrumenting title length with name length
 - Longer titles lead to less turnover, lower volatility, and underreaction
 - Stronger for subtle news released on quiet days to less-sophisticated investors

Investor Attention



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 - Investors attracted to short, simple, negative titles
 - More so for less-sophisticated investors
- Find attention→markets, instrumenting title length with name length
 - Longer titles lead to less turnover, lower volatility, and underreaction
 - Stronger for subtle news released on quiet days to less-sophisticated investors
- Firms and analysts do not fully appreciate these effects

- 1 Overview
- 2 Field Experiment**
- 3 Complexity
- 4 Sentiment
- 5 Cognitive Abilities
- 6 Instrument for Headline Length
- 7 Market Effects

Overview of Empirical Strategy

- Title Features → Attention
 - Measure of attention to a title?
 - Variation in title? holding context fixed?

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 - Measure of attention to a title?
 - Variation in title? holding context fixed?
- Solution: Title Testing
 - *Seeking Alpha* began field experiment in Jan 2016

What is *Seeking Alpha*?

- Leading crowdsourced investment research community
 - 4M registered investors
 - 85 million page views per month
 - 10,000 analysts and 280,000 commenters
 - 100+ stock reports published daily
 - 2.5M investors signed up for real-time alerts
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 - 90% of readers own stocks
 - 50% of readers traded in trailing 30 days
 - ~6 stocks tracked per investor

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 - 50% of readers traded in trailing 30 days
 - ~6 stocks tracked per investor
- Sophisticated Audience
 - Over 20% of readers financial professionals
 - Highest % of readers with portfolio assets over \$50k, \$250k, \$1M

Titan International Bonds And Stock Look Overpriced

Jul. 23, 2015 10:37 AM ET | 27 comments | About: Titan International Inc. (TWI)



Swaraj Chowdhury, CFA  Follow (174 followers)

Deep value, hedge fund analyst, industrials, mid-cap

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Summary

- Leveraged tire/wheel producer dependent on short-term OEM demand from agricultural and mining equipment manufacturers.
- Falling agricultural commodity prices led to reduced farm income, which in turn reduced demand for heavy equipment such as >140 HP tractors and combines.
- Titan's revenue and EBITDA are falling due to lower demand for larger tires and wheels which accompany heavy agricultural and mining equipment.
- Liquidity is comfortable but a combination of negative free cash flows and debt maturities over the next two years can pose challenges if commodity prices remain low.
- Complex org structure where subsidiaries with more than 50% of consolidated revenues do not guarantee their first lien bonds. It is possible for them to borrow more.

Overview of Empirical Strategy

- Title Attributes → Attention
 - Measure of attention to a title?
 - Variation in title? holding context fixed?
- Solution: Title Testing
 - *Seeking Alpha* began field experiment in Jan 2016
 - Authors propose 2 titles for a report; Editor provides 1 title
 - Emails sent to investors tracking firm with random assignment of title
 - After 30 minutes, title with most views published

Example Alert Emails

 **Seeking Alpha**   
to me 

Freeport-McMoRan: Capitulation? by Stone Fox Capital
This article was published on Tue, Jan. 12, 4:02 PM ET

[Read the full article now »](#)

 **Seeking Alpha**   
to me 

Freeport-McMoRan: Keep an Eye on Cashflows by Stone Fox Capital
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Example Titles

- Mallinckrodt
 - Mallinckrodt: Is it a one hit wonder?
 - Is Mallinckrodt a one hit wonder?
- Tidewater
 - Tidewater: Can the company avoid bankruptcy?
 - Can Tidewater avoid bankruptcy?
- Wal-Mart
 - Wal-Mart makes progress but is it enough?
 - Wal-Mart: Progress, but is it enough?

- 1 Overview
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Measuring Complexity

- Title Length (characters)
- Word Count
- Word Length
- Word Familiarity/Frequency

Empirical Specification

$$\text{Views/Emails}_{i,j} = \beta \text{ Title Complexity}_{i,j} + \alpha_j + \epsilon_{i,j}$$

- title i for stock report j
- β : effect of textual complexity on attention
- α_j : holds constant firm, analyst, event, and date

Complexity

	Page Views/Emails			
	(1)	(2)	(3)	(4)
Title Length	0.04***			
Average Word Length	(0.01)			
Number of Words				
Frequency of Least Common Word in Title				
Article FE	No			
Adjusted R ²	0.03			
Within R ²	.			
Num. Articles	9947			
Observations	22629			

Complexity

- Std dev increase in title length → 12% fewer views
- Std dev increase in VIX → 8% more views

	Page Views/Emails			
	(1)	(2)	(3)	(4)
Title Length	0.04***	-0.11***		
	(0.01)	(0.00)		
Average Word Length				
Number of Words				
Frequency of Least Common Word in Title				
Article FE	No	Yes		
Adjusted R ²	0.03	0.91		
Within R ²	.	0.06		
Num. Articles	9947	9947		
Observations	22629	22629		

Complexity

- Std dev increase in title length → 10% fewer views
- Std dev increase in VIX → 8% more views
- Longer words and more words repel attention

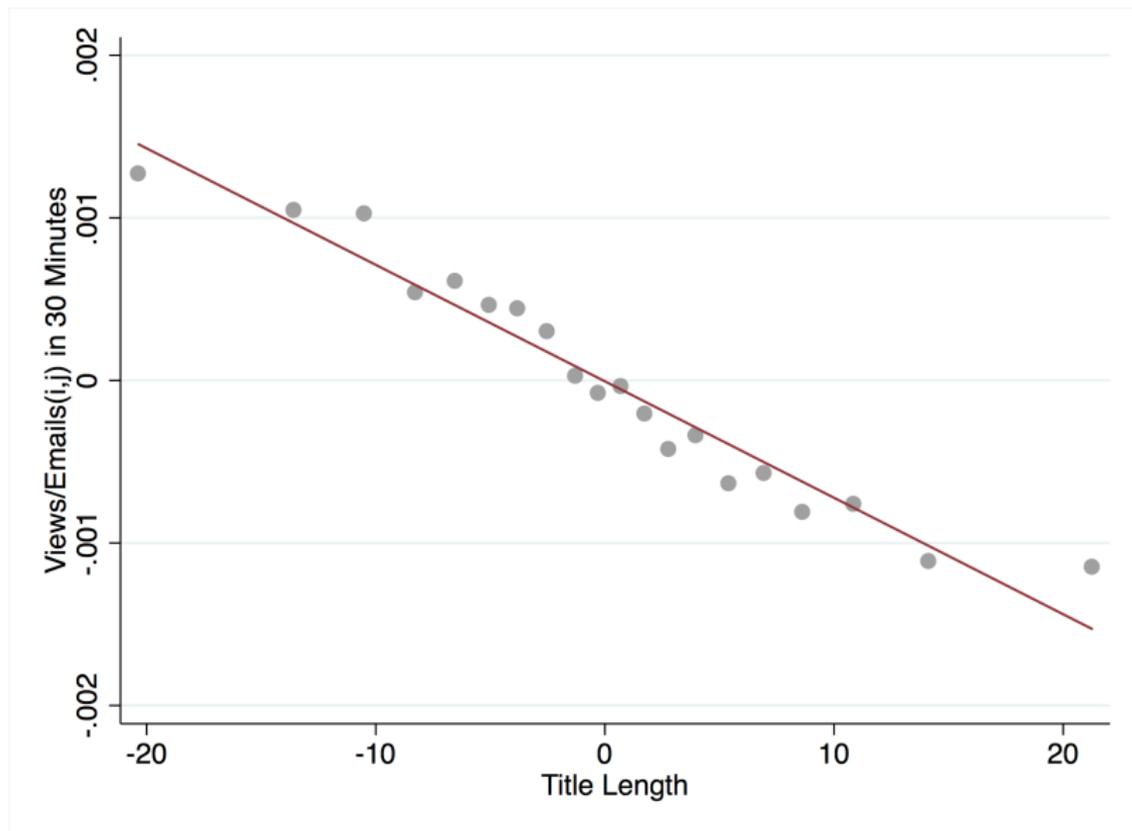
	Page Views/Emails			
	(1)	(2)	(3)	(4)
Title Length	0.04*** (0.01)	-0.11*** (0.00)		
Average Word Length			-0.05*** (0.00)	
Number of Words			-0.11*** (0.00)	
Frequency of Least Common Word in Title				
Article FE	No	Yes	Yes	
Adjusted R ²	0.03	0.91	0.91	
Within R ²	.	0.06	0.06	
Num. Articles	9947	9947	9947	
Observations	22629	22629	22629	

Complexity

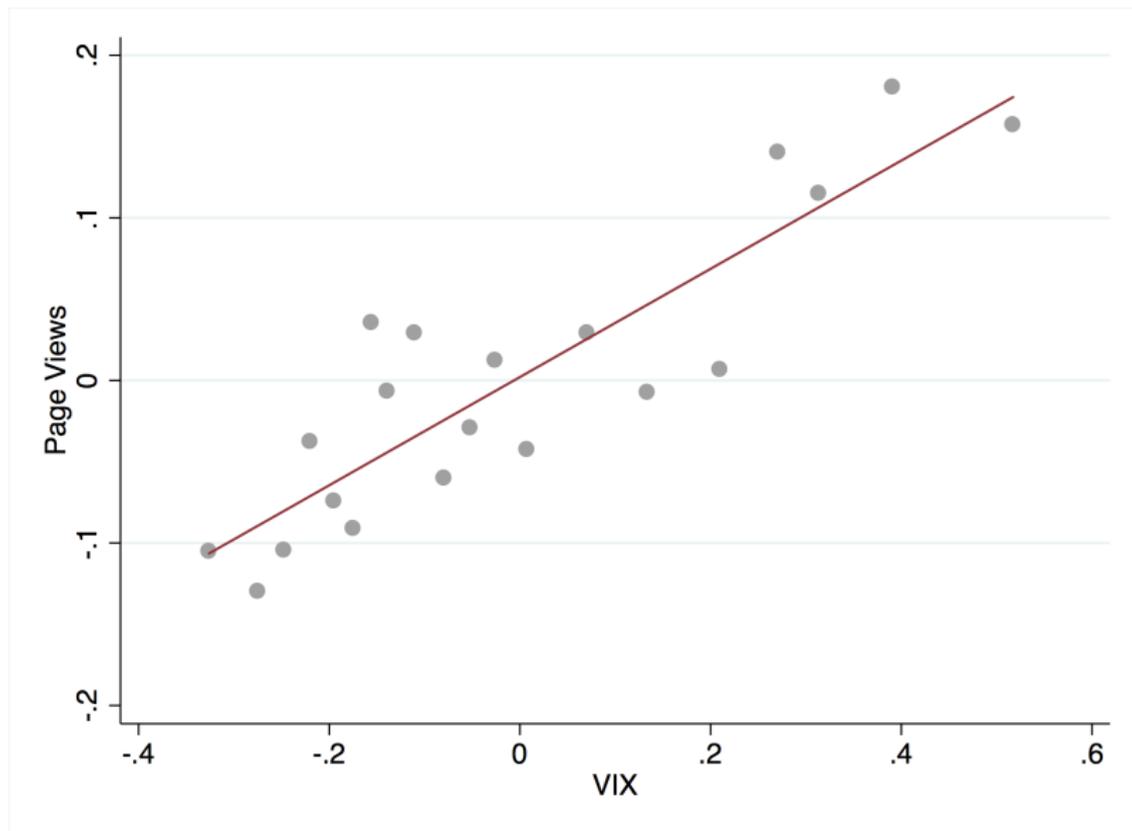
- Std dev increase in title length → 10% fewer views
- Std dev increase in VIX → 8% more views
- Longer words and more words repel attention
- Rare words grab attention

	Page Views/Emails			
	(1)	(2)	(3)	(4)
Title Length	0.04*** (0.01)	-0.11*** (0.00)		
Average Word Length			-0.05*** (0.00)	-0.05*** (0.00)
Number of Words			-0.11*** (0.00)	-0.11*** (0.00)
Frequency of Least Common Word in Title				-0.01*** (0.00)
Article FE	No	Yes	Yes	Yes
Adjusted R ²	0.03	0.91	0.91	0.91
Within R ²	.	0.06	0.06	0.06
Num. Articles	9947	9947	9947	9947
Observations	22629	22629	22629	22629

Complexity



Complexity and VIX



Complexity and Screen Size

- aaaaaaaaaaaaaaaaaaaaaaaaaaaaa
- aaaaaaaaaaaaaaaaaaaaaaaaaaaaa
- aaaaaaaaaaaaaaaaaaaaaaaaaaaaa...

	Views/Emails		
	(1)	(2)	(3)
Title Length	-0.13*** (0.05)	-0.12*** (0.01)	-0.12*** (0.04)
Short or Long Titles	Very Short (≤ 25)	Middle(> 33 & < 65)	Long (≥ 65)
Article FE	Yes	Yes	Yes
Num. Articles	92	584	564
Observations	196	1294	1179

Complexity by Character

- Incremental increases in character count lead to less attention

	Views/Emails			
	(1)	(2)	(3)	(4)
Title Length	-0.11 (0.28)	-0.16 (0.13)	-0.18** (0.08)	-0.18*** (0.06)
Max Character Difference in Length	1	2	3	4
Article FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.91	0.91	0.91	0.91
Within R ²	0.00	0.00	0.00	0.01
Num. Articles	577	914	1266	1632
Observations	1154	1828	2532	3264

Complexity and Content

- Aversion to length holds for titles with highly similar content
- Very similar headlines
 - Mallinckrodt: Is it a one hit wonder?
 - Is Mallinckrodt a one hit wonder?
- Very different headlines
 - No Real Catalyst For Invesco Mortgage?
 - Invesco's Dividend Is Secure...For Now

	Views/Emails		
	(1)	(2)	(3)
Title Length	-0.12*** (0.05)	-0.11*** (0.01)	-0.11*** (0.02)
Word Overlap	High	Middle	Low
Article FE	Yes	Yes	Yes
Adjusted R ²	0.92	0.92	0.90
Within R ²	0.02	0.06	0.08
Num. Articles	344	6268	410
Observations	688	12536	820

Complexity and Pixel Length

iiiiiiii

ffffffff

rrrrrrrr

hhhhhhhh

mmmmmmmm

Complexity and Pixel Length

- Optical title length → Fewer views

	Views/Emails		
	(1)	(2)	(3)
Title Pixel Length	-0.02 (0.03)	0.04 (0.04)	-0.10** (0.05)
# Characters in Title FE	Yes	Yes	Yes
Avg Title Length	All	< 45	≥ 45
Article FE	Yes	Yes	Yes
Adjusted R ²	0.91	0.91	0.91
Within R ²	0.00	0.00	0.00
Num. Articles	9947	4244	5703
Observations	22629	9764	12865

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Measuring Sentiment

- Lexicons
 - Lists of Positive and Negative Words
 - 75% of titles have no matches
 - Equal weights, ignores combinations

Attraction to Negative Titles

- Standard deviation increase in negativity → 2% more views
- Stronger for less-sophisticated investors
- Magnitude declines 20% when control for complexity

	Views/Emails				
	(1)	(2)	(3)	(4)	(5)
Net Sentiment	0.002 (0.008)	-0.021*** (0.003)	-0.017*** (0.003)	-0.015*** (0.00)	
Net Sentiment x Numerical Comments				0.008** (0.004)	
Positive Sentiment					-0.017*** (0.003)
Negative Sentiment					0.007** (0.003)
Title Length			-0.106*** (0.003)	-0.106*** (0.004)	-0.105*** (0.004)
Article FE	No	Yes	Yes	Yes	Yes
Adjusted R ²	0.02	0.90	0.91	0.91	0.91
Within R ²	0.00	0.00	0.07	0.07	0.07
Num. Articles	9947	9947	9947	9538	9947
Observations	22629	22629	22629	21731	22629

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Complexity & Cognitive Abilities

- Investors less sensitive to title length read-to-end (RTE) more

	Read-to-End Rate	
	(1)	(2)
Title Length	0.21*** (0.02)	0.17*** (0.01)
Article FE	No	Yes
Adjusted R ²	0.04	0.72
Within R ²	0.04	0.05
Number of Articles	1687	1687
Observations	4008	4008

Complexity & Cognitive Abilities

- Stronger for less-sophisticated investors

	Page Views/Emails						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Title Length	-0.11*** (0.00)						
... x Market Cap	-0.02*** (0.00)						
... x Followers		-0.02*** (0.00)					
... x Non-Analyst			-0.01*** (0.00)				
... x Comment Length				0.01* (0.00)			
... x Numerical Comments					0.01** (0.00)		
... x Finance Professionals						0.03*** (0.01)	
... x MBA or CFA							0.02*** (0.00)
Article FE	Yes						
Adjusted R ²	0.91	0.91	0.91	0.91	0.91	0.91	0.91
Within R ²	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Num. Articles	9538	9538	9538	9538	9538	9538	9538
Observations	21725	21731	21731	21731	21731	21725	21725

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

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Instrument for Title Length

- Credit Cards
 - Visa
 - Mastercard
 - American Express

- Fast Food
 - Sonic
 - Wendys
 - Jack In The Box

- Pharma Distribution
 - McKesson
 - Cardinal Health
 - AmerisourceBergen

Instrument for Title Length

- After controlling for firm size, name length unrelated to firm characteristics

	Name Length (1)	(2)	(3)	Adj Name Length				
				(4)	(5)	(6)	(7)	(8)
Total Assets	-0.14*** (0.00)							
Market Capitalization		-0.02 (0.02)						
Institutional Ownership			-0.00 (0.02)					
Revenue				-0.01 (0.02)	-0.04 (0.03)			
COGS					0.03 (0.03)			
Earnings Surprise						0.00 (0.05)		
Market Beta							0.01 (0.01)	
Age (since IPO)								-0.02 (0.02)
Adjusted R ²	0.07	-0.13	-0.12	-0.13	-0.14	-0.12	-0.11	-0.11
Within R ²	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Observations	146020	146020	146020	136043	136043	79302	125043	49966

Instrument for Title Length

- Longer names predict longer titles
- F-statistic 128

	(1) Title Length OLS	(2) Length Name in Title OLS	(3) Views/ Emails OLS	(4) Views/ Emails IV	(5) Read-to- End Rate OLS	(6) Read-to- End Rate IV
Legal Name Length	0.15*** (0.01)	0.39*** (0.01)				
Legal Name Length ²	-0.04*** (0.01)	-0.09*** (0.01)				
Title Length			-0.10*** (0.01)	-0.16*** (0.06)	0.14*** (0.02)	0.52** (0.27)
Market Capitalization			-0.16*** (0.01)	-0.16** (0.01)	-0.26*** (0.04)	-0.24*** (0.05)
Number of Email Subscribers			-0.56*** (0.01)	-0.56** (0.01)	-0.17*** (0.05)	-0.14*** (0.05)
% Adjusted R ²	0.12	0.37	0.58	.	0.30	.
% Within R ²	0.01	0.10	0.33	.	0.12	.
Number of Articles	9944	9944	9944	9944	1686	1686
Observations	22623	22623	22623	22623	4006	4006

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Market Reaction to News

- Question: Does any of this matter beyond *Seeking Alpha* investors?
- Challenge: Press-release titles are endogenous
 - Need variation in length unrelated to earnings surprise
- Solution
 - Instrument title length with the length of firm's name
- Results
 - Market volatility and volume lower for longer titles
 - Evidence of price underreaction for longer titles
 - Larger effects when anticipated benefits lower

Market Reaction to News

- Data
 - *PR Newswire* and *Business Wire*
 - Dates: 1988 to 2016
 - Extract earnings announcements
 - Match with CRSP and Compustat
 - Final sample: 480,718 releases for 15,335 firms

Market Reaction to News

Unique Fabricating, Inc. reports third quarter revenues of \$39.6 million; adjusted diluted earnings per share of \$0.18

Piedmont Natural Gas reports results for fiscal year 2015

Navistar reports fourth quarter results

Xtl Biopharmaceuticals reports third quarter 2015 results and confirms intention to start lupus trial in 2016

Mitcham Industries reports fiscal 2016 third quarter results

Crossroads Systems reports fiscal fourth quarter and full year 2015 financial results

Regeneron reports third quarter 2015 financial and operating results

Rice Midstream Partners LP reports third quarter 2015 results

Dynasil Corporation of America reports fiscal year 2015 financial results

China Zenix Auto International Limited announces unaudited financial results for the third quarter of 2015

Copa Holdings reports net income of US\$6.2 million and eps of US\$0.14 for the third quarter of 2015

Landauer, Inc. reports fiscal 2015 fourth quarter and full year results

Taylor Morrison reports third quarter revenue of \$796 million and earnings per share of \$0.37

Sigma-Aldrich (NASDAQ SIAL) reports Q3 2015 sales of \$703 million and adjusted diluted eps of \$1.00

Neogen reports 16% increase in net income

Servotronics, Inc. announces results for the three and nine months ended September 30, 2015

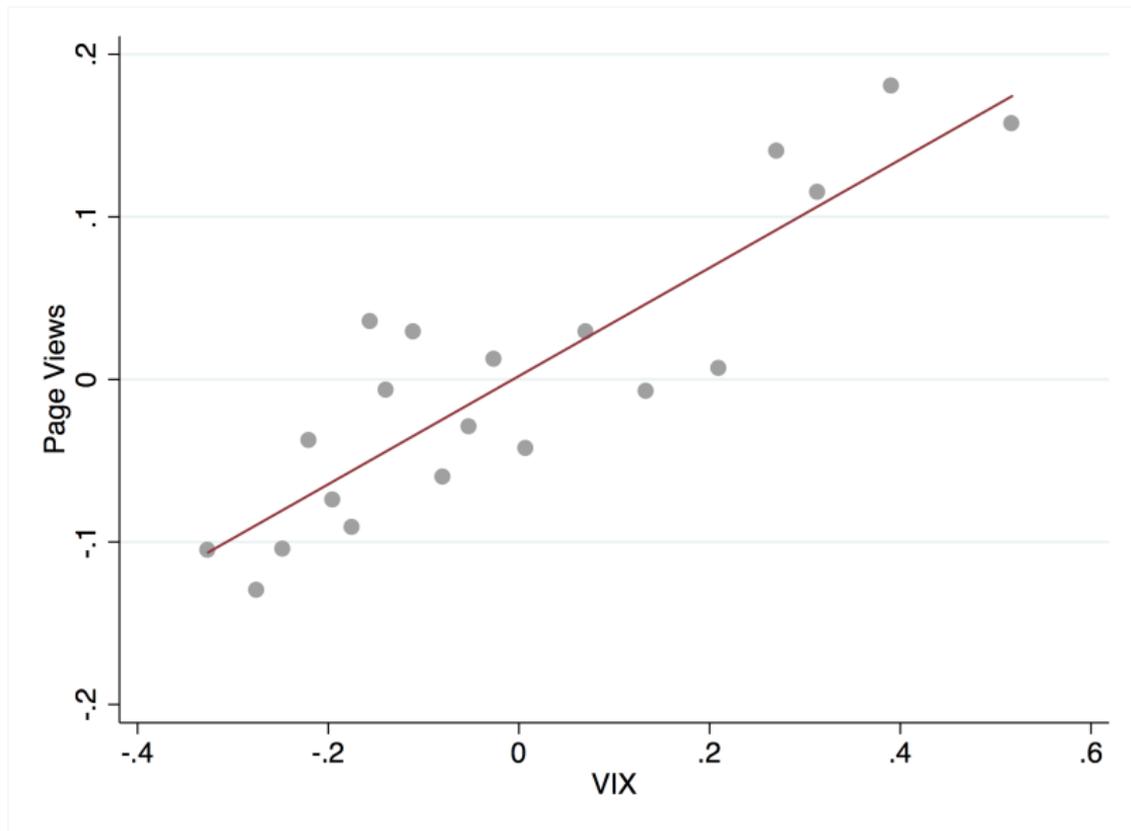
Instrument for Title Length

- Name length highly relevant for title length of press releases
- F-Statistic is 1338

	Title Length		
	(1)	(2)	(3)
Log Length of Firm Name	0.15*** (0.00)	0.13*** (0.00)	0.15*** (0.00)
Log Market Capitalization(t-3)			0.08*** (0.01)
Date FE	No	Yes	Yes
SIC x Year FE	No	SIC-4	SIC-4
Adjusted R ²	0.06	0.10	0.10
Within R ²	0.02	0.02	0.02
Observations	421293	421293	421293

Market Reaction to News

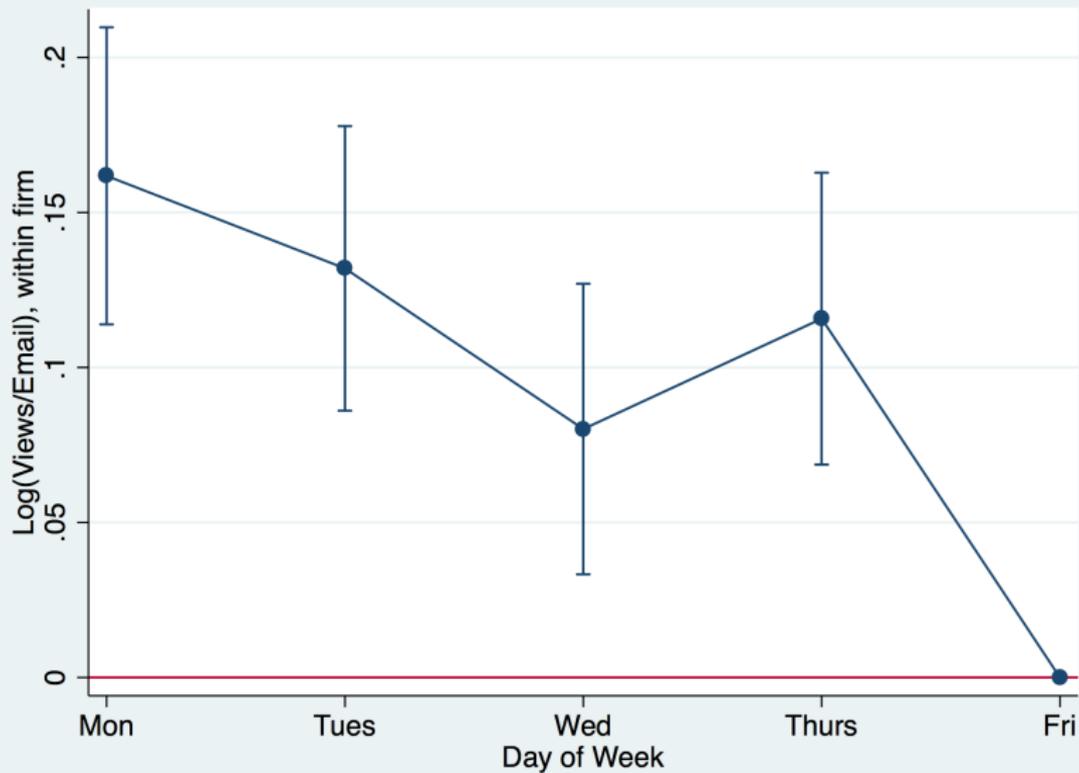
	Turnover (t) IV (1)	Trade Count (t) IV (2)	Intraday Range (t) IV (3)	Volatility (t) IV (4)	Return (t) IV (5)	Return (t) IV (6)	Return (t+1,t+90) IV (7)
Title Length (t)	-0.043*** (0.01)	-0.038*** (0.01)	-0.095*** (0.02)	-0.042*** (0.01)	0.118*** (0.03)	0.009*** (0.002)	-0.012** (0.006)
... x Positive Surprise (t)					-0.144*** (0.04)	-0.010*** (0.003)	0.010 (0.008)
Positive Surprise (t)					0.476*** (0.01)	0.033*** (0.001)	0.020*** (0.001)
Market Cap (t-3)	-0.053*** (0.00)	0.000 (0.00)	-0.142*** (0.00)	-0.037*** (0.00)	-0.030*** (0.00)	-0.002*** (0.000)	-0.006*** (0.001)
Other Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
SIC-4 x Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	417876	218360	421297	421293	263947	263947	261942



- Stronger when VIX is lower

	Turnover
$\widehat{\text{Title Length}}$	-0.045*** (0.014)
$\widehat{\text{Title Length}} \times \text{VIX}$	0.028*** (0.007)
SIC-4 \times Year FE	Yes
Annc Date FE	Yes
Firm Controls	Yes
Observations	421560

Slow Days

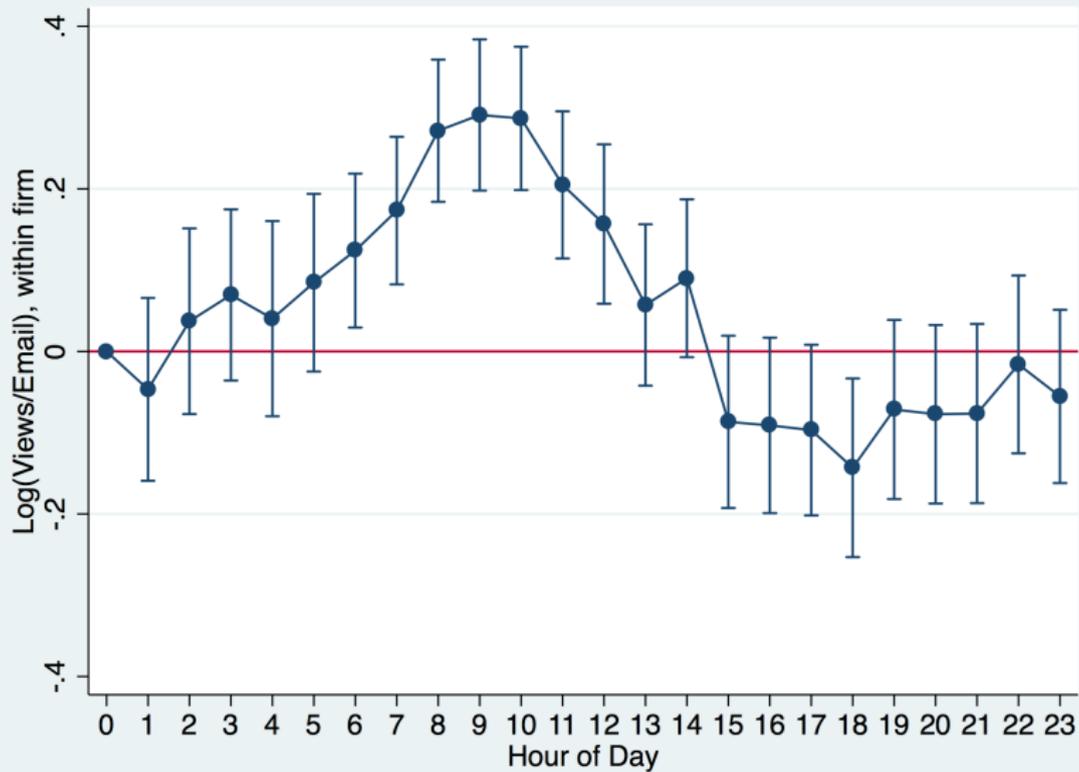


Slow Days

- Stronger on days with less other news
 - 55% of slow days are Fridays
 - Michaely et al. (2016): Friday effect due to selection bias

	Turnover
$\widehat{\text{Title Length}}$	-0.044*** (0.014)
$\widehat{\text{Title Length}} \times \text{Number Earnings Releases}$	0.021** (0.009)
SIC-4 \times Year FE	Yes
Annc Date FE	Yes
Firm Controls	Yes
Observations	421560

Afternoons



Afternoons

- Stronger for news released in the afternoon

	Turnover
Title Length	-0.011 (0.011)
Title Length x Afternoon	-0.061** (0.028)
SIC-4 x Year FE	Yes
Annc Date FE	Yes
Firm Controls	Yes
Observations	421560

Sophistication of Investor Base

- Stronger when less shares held by institutional investors

	Turnover
Title Length	-0.041** (0.018)
Title Length \times 13F Ownership	0.024* (0.013)
13F Ownership	0.049*** (0.004)
SIC-4 \times Year FE	Yes
Annc Date FE	Yes
Firm Controls	Yes
Observations	421560

Analyst Coverage

- Stronger for firms without analyst coverage

	Turnover
Title Length	-0.061*** (0.021)
Title Length \times Analyst	0.037* (0.020)
Analyst	0.086*** (0.003)
SIC-4 \times Year FE	Yes
Annc Date FE	Yes
Firm Controls	Yes
Observations	421560

Earnings Surprise

- Stronger when earnings announcement is less surprising

	Turnover
$\widehat{\text{Title Length}}$	-0.015 (0.015)
$\widehat{\text{Title Length}} \times \text{Abs. Earnings Surprise}$	0.026* (0.014)
Abs. Earnings Surprise	0.005*** (0.002)
SIC-4 \times Year FE	Yes
Annc Date FE	Yes
Firm Controls	Yes
Observations	421560

Take Aways

- Using title-testing data from *Seeking Alpha*,
 - Evidence of pure complexity aversion exhibited by engaged investors
 - Attraction to negative titles, if net long
 - Stronger for less-sophisticated investors

- Instrumenting earnings announcement headlines,
 - Causal evidence attention affects market responses to news
 - Market less attentive to longer headlines (less turnover and volatility)
 - Evidence consistent with a price underreaction
 - Stronger when anticipated benefits less (slow days, subtle news)

Complexity Aversion on SSRN

- Double title length → 11% fewer abstract views

	(1)	(2)	(3)
	Log Abstract Views	Log Abstract Views	Log Paper Downloads
Log Title Length	-0.22*** (0.01)	-0.11*** (0.00)	
Log Abstract Views			
Log Abstract Length			
Week FE	No	Yes	
Author FE	No	Yes	
Adjusted R ²	0.01	0.66	
Within R ²	.	0.00	
Num. Academics	50010	50010	
Observations	295349	295349	
Clustering SE	Author	Author	

Complexity Aversion on SSRN

- Double title length \rightarrow 11% fewer abstract views
- Viewers of longer titles more likely to download
- Longer abstracts also predict more downloads

	(1)	(2)	(3)
	Log Abstract Views	Log Abstract Views	Log Paper Downloads
Log Title Length	-0.22*** (0.01)	-0.11*** (0.00)	0.01*** (0.00)
Log Abstract Views			1.22*** (0.00)
Log Abstract Length			0.01*** (0.00)
Week FE	No	Yes	Yes
Author FE	No	Yes	Yes
Adjusted R ²	0.01	0.66	0.81
Within R ²	.	0.00	0.58
Num. Academics	50010	50010	50010
Observations	295349	295349	295349
Clustering SE	Author	Author	Author