

# Media Coverage and The Cross-Section of Mutual Fund Herding

Prince Elvis Asamoah, City University of Hong Kong. [peasamoah2-c@my.cityu.edu.hk](mailto:peasamoah2-c@my.cityu.edu.hk)  
 Prince Charles Adubofour, The Hong Kong Polytechnic University, [prince-charles.adubofour@connect.poly](mailto:prince-charles.adubofour@connect.poly)



## Abstract

We show that media coverage of fund holdings affects fund managers' herding behaviour through information creation and dissemination roles. Our measure, Media Driven-Herd, captures fund managers' tendency to herd due to media coverage. We find that high media-driven-herding funds underperform their peers by about 2% per year. Media is positively (negatively) related to buy-herds (sell-herds). Managerial experience incentives that attenuate herding behaviour are eroded by the media, and managers herd in the direction of the news's informational content. Our evidence suggests that media coverage exacerbates managerial herding behaviour due to limited attention and serves as a channel that makes herding effective.

## Background & Motivation

The business media plays a substantial role in the financial market by disseminating information and allocating capital. Media coverage can reduce the cost of information acquisition and lowers the information asymmetry between firms and investors. Conversely, media coverage could create an inducement for manipulation and intensify individual investor biases. Little is known when it comes to the impact of media coverage on institutional investors' trading behaviour. We extend this line of literature by addressing and examining the influence of prior media coverage of holdings on institutional investors' herding behaviour and the mechanisms of this effect, focusing on mutual funds and their performance.

## Contributions and Findings

We create a simple measure of media-induced herding called Media-Driven-Herd (MDH), which captures a fund manager's tendency to herd in or out of stocks due to the media coverage the stocks receive. First, we find that stocks' media coverage can positively explain the cross-sectional aggregate stock-level herding and buy-herding. We find that media coverage can explain about 12 percent of fund herding behaviour after controlling for various fund characteristics, fixed effects, and clustering by the fund. Media coverage can positively drive fund buy-herding but negatively drive fund sell-herding. Managers respond to the news articles' informational content and sentiment in their herding behaviour rather than just the news coverage.

## Main Results

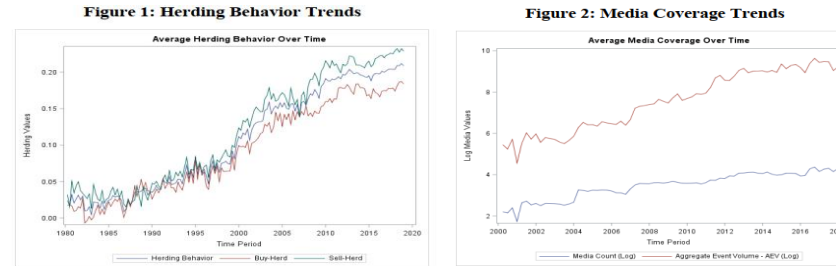


Table 4: Media Coverage of Fund Holdings and LSV Fund Herding

	LSV Fund Herding			
	1	2	3	4
Media_Count	0.199*** (3.05)	0.194*** (2.97)		
Media_AEV			0.486*** (10.35)	0.476*** (10.02)
Control variables	YES	YES	YES	YES
Time Fixed Effect	YES	YES	YES	YES
Cluster by Fund	YES	YES	YES	YES
Adj. R <sup>2</sup>	0.441	0.446	0.473	0.477
Observations	108,820	108,817	108,820	108,817

**Control variables:**  
 Fund size, Age,  
 Flow, Expense,  
 Turnover, Alpha,  
 Tracking error

Table 13: Media-Driven-Herd and Fund Future Performance

	FF4 alpha	DGTW CS	Value added
	1	2	3
Media-Driven-Herd	-3.366** (-2.16)	-1.303*** (-3.32)	-0.212*** (-2.77)
Time Fixed Effect	YES	YES	YES
Cluster by Fund	YES	YES	YES
Adj. R <sup>2</sup>	0.729	0.061	0.215
Observations	84,804	83,003	84,804

Table 15: Performance Predictive Power of Media-Driven-Herd (MDH): Double Sort

Panel A: Double-Sorted Portfolio by DGTW-CS and MDH					
CS	Net Return				
	1	2	3	4	Q4-Q1
1	0.24 (0.39)	0.68 (1.15)	0.90 (1.56)	1.28 (2.38)	1.04*** (3.98)
2	0.12 (0.19)	0.46 (0.80)	0.61 (1.16)	0.96 (1.77)	0.84*** (3.12)
3	-0.04 (-0.07)	0.25 (0.45)	0.37 (0.71)	0.61 (1.18)	0.65*** (2.85)
4	-0.15 (-0.24)	0.13 (0.23)	0.46 (0.88)	0.84 (1.72)	0.99*** (3.37)
Q4-Q1	-0.39** (-2.13)	-0.55*** (-2.83)	-0.44** (-2.30)	-0.44*** (-2.70)	

- Media-Driven-Herd (MDH) is constructed from cross-sectional regressions of mutual fund holdings' herding measure constructed following Lakonishok, Shleifer and Vishny (1992).
- DGTW CS is characteristic selectivity measured following Daniel, Grintblatt, Titman and Wermers (1997)

## Other Results

Table 16: Media-Driven-Herd, Other Fund Characteristics, and Fund

	Future Performance			
	1	2	3	4
Media-Driven-Herd	-2.162* (-1.88)	-2.545* (-1.92)	-3.085* (-1.95)	-1.875*** (-6.94)
DGTW - CS	0.778*** (8.66)			0.790*** (8.33)
Active Shares		1.162*** (6.86)		0.754*** (9.70)
Return Gap			12.600*** (2.83)	8.892** (2.14)
Time Fixed Effect	YES	YES	YES	YES
Cluster by Fund	YES	YES	YES	YES
Adj. R <sup>2</sup>	0.789	0.740	0.745	0.802
Observations	82,992	69,265	77,152	66,414

## Conclusions

- We explore the association between mutual fund herding behaviour and media coverage.
- Following the literature inspired by Lakonishok, Shleifer and Vishny (1992) we constructed herding measure at the fund level.
- First, we find media coverage of fund holdings to be positively and significantly related to fund-level herding.
- Second, we find media coverage to be positively related to buy-herding but negatively related to sell-herding.
- Third, we find managers respond to the news articles' informational content in their herding behaviour rather than just the news coverage.
- Fourth, we find that managerial experience and team management which attenuate fund herding, is reversed once interacted with media coverage of fund holdings, indicating that managerial incentive to anti-herd is eroded.
- We developed a measure called Media-Driven-Herd (MDH), which captures a fund manager's tendency to herd due to media coverage.
- We find mutual fund (MDH) to be negatively and significantly related to future fund performance such as funds' Carhart (1997) four factor alpha, DGTW (1997) Characteristics Selectivity, and Value added by a fund.
- The predictive power of MDH is robust using double portfolio sorts and multivariate regressions.