MANAGERIAL (IN)ATTENTION TO FINANCIAL MARKETS

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Overview: Direct Evidence for the Real Effect of Financial Market

Research Question. How much attention do corporate managers pay to financial markets, and does attention shape real policies?
Motivation. Decades of research study *investors*' attention, yet we know little about *managers*'—the decision-makers who translate market signals into corporate actions. This gap is important because for financial markets to have real effects on corporate policies, managers must both (1) attend to market signals and (2) find those signals informative. Foundational theories—price feedback and market timing—focus on (2) while assuming (1): that all managers *actively* and *uniformly* monitor markets. A large empirical literature testing these theories has similarly built on this premise. Yet, this assumption has never been tested. Without a direct measure, correlations between prices and policies may reflect omitted factors rather than real effects of financial markets.
Contribution. I construct the first **direct measure of managerial attention to financial markets**—the **Index of Attention to Financial Markets (IAFM)**—using managers' own discussion of market conditions during earnings calls covering nearly all U.S. public firms from 2007–2023 (98,010 transcripts).
Novel Evidence.

- **Price Feedback:** Managers who pay closer attention exhibit stronger investment–price sensitivity—*the first direct evidence for the price-feedback theory*
- **Market Timing:** Attentive firms access external finance more actively and time the market more effectively—*the first direct evidence supporting market-timing theory.*

Implications. The IAFM opens a new avenue for testing theories that assume managers interact with financial markets. It bridges behavioral and corporate finance by showing that prices affect the real economy when managers pay attention to them.

Measuring Managerial Attention to Financial Markets

Concept. Earnings calls provide an ideal setting to capture managerial attention to financial markets: these quarterly events combine structured presentations with spontaneous Q&A, revealing both strategic priorities and top-of-mind concerns. Because calls are time-constrained, managers must allocate speaking time selectively—greater discussion of market conditions plausibly indicates higher attention allocation.

Method.

- Start with 25 seed terms for Equity and Debt, and expand using *word2vec* to a final dictionary of about 500 terms per market dimension.
- Score each section (presentation & Q&A) using TF–IDF; aggregate to call → firm-year level.

Validation. IAFM rises with firm returns (equity) and with interest-rate changes (debt), is higher among finance-expert CEOs, and varies intuitively across industries (Finance > Manufacturing > Healthcare).

Substantial Heterogeneity in Attention. Attention varies widely—across industries (∼40%), across firms (∼30%), and within firms over time (∼30%). This **challenges the implicit assumption** in representative-agent theories of price-feedback and market-timing that all managers uniformly monitor markets, and suggests that differences in attention **provide a first-order source of variation** in the real effects of financial markets.

Equity	Debt
closing_price	bond_market
equity_market	bond_price
equity_performance	bond_yield
equity_price	borrowing_cost
equity_return	corporate_bond
equity_valuation	credit_market
equity_value	credit_spread
market_cap	credit_yield
market_reaction	debt_market
market_valuation	gilt_market
market_value	gilt_yield
mispriced	government_bond
overvalued	interest_rate
price_-_to_-_book_ratio	interest_rate_risk
price_target	investment_-_grade_bond
share_valuation	loan_market
share_price	municipal_bond
shareholder_return	sovereign_bond
shareholder_value	t_-_bill
stock_market	treasury_bill
stock_performance	treasury_bond
stock_price	treasury_rate
stock_return	treasury_yield
stock_valuation	yield_curve
undervalued	yield_spread

	Mean	STD	25%	Median	75%	N
Panel A: IAFM Measures for All U.S. Public Firms						
IAFM Equity	3.05	4.44	0.35	1.41	3.71	60820
IAFM Debt	2.29	5.04	0	0.34	1.93	60820
Panel B: IAFM Measures for U.S. Public Firms Excluding Financial Firms and Utilities						
IAFM Equity	1.93	2.86	0.22	1.01	2.47	47812
IAFM Debt	0.81	1.74	0	0	0.94	47812

Dep. Var.: IAFM Dimension:	(1) Equity	(2) Debt
Year FE	0.28%	0.64%
Industry FE	38.12%	44.77%
Industry × Year FE	3.2%	2.9%
Firm FE	30.4%	33.9%
Residual Firm × Year Variation	28%	17.79%
Sum	100%	100%

Implication for Investments: Test for Price Feedback Theory

Does attention facilitate investment-price sensitivity?

Hypothesis. If managers *learn* from market prices, which aggregate diverse information from market participants, investment–price sensitivity should rise with attention: $\beta_3 > 0$

Specification.

$$Investment_{i,t} = \alpha_{t,j} + \eta_i + \beta_1 Q_{i,t-1} + \beta_2 \ln(1 + IAFM_{i,t-1}) + \beta_3 \big[\ln(1 + IAFM_{i,t-1}) \times Q_{i,t-1}\big] + \gamma\, CONTROL_{i,t-1} + \varepsilon_{i,t} \quad (1)$$

Result. $\beta_3 > 0$ for both Equity- and Debt-IAFM.

- Equity IAFM 10% ↑ ⇒ CAPX–Q sensitivity 1.8% ↑
- Debt IAFM10% ↑ ⇒ CAPX–Q sensitivity 2.6% ↑

This provides **first direct evidence supporting the price-feedback theory**

Proxy for IAFM:	(1) Equity	(2) Debt	(3) Equity	(4) Debt
Panel A: Dep. Var.: CAPX (%)				
Ln(1+IAFM) × Year-End Q	0.0275	0.131***	0.0633***	0.0938***
	(0.968)	(2.964)	(2.891)	(2.670)
Ln(1+IAFM)	-0.275***	-0.528***	-0.164**	-0.307***
	(-3.748)	(-4.616)	(-2.507)	(-3.256)
Year-End Q	0.327***	0.316***	0.343***	0.363***
	(10.54)	(12.95)	(10.45)	(11.20)
Observations	36,754	36,754	35,885	35,885
Adj. R^2	0.409	0.409	0.680	0.680
Firm FE	No	No	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes
Panel B: Dep. Var.: INVT (%)				
Ln(1+IAFM) × Year-End Q	0.129**	0.201**	0.247***	0.269**
	(2.034)	(2.121)	(3.624)	(2.455)
Ln(1+IAFM)	-0.422**	-0.438*	-0.456**	-0.832***
	(-2.458)	(-1.693)	(-2.357)	(-2.677)
Year-End Q	0.626***	0.662***	0.838***	0.930***
	(10.03)	(12.09)	(10.38)	(11.23)
Observations	36,785	36,785	35,919	35,919
Adj. R^2	0.162	0.162	0.290	0.289
Firm FE	No	No	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes

The effect is stronger when managers are **most likely to learn from market**: i) when insider trading is low, ii) competition is high, iii) price is informative, iv) firms are financially constrained, and v) discussion on finanical markets is associated with positive sentiment
Mechanism. Equity attention ⇒ *at least* information channel; Debt attention ⇒ primarily cost of capital channel

Implication for Financing Policies: Test for Market Timing Theory

Does attention facilitate access to external capital when financing deficits?

$$\text{Net Issue Indicator}_{i,t} = \alpha_{t,j} + \eta_i + \omega_1 NFD_{i,t} + \omega_2 \ln(1 + IAFM_{i,t-1}) + \omega_3 \big[\ln(1 + IAFM_{i,t-1}) \times NFD_{i,t}\big] + \gamma\, CONTROL_{i,t-1} + \varepsilon_{i,t} \quad (2)$$

where $Net\ Issue\ Indicator_{i,t}$ denotes equity or debt issue and $NFD_{i,t}$ denotes net financing deficit
Result. Firms with higher IAFM are significantly more responsive in tapping external finance when financing needs arise—suggesting that attentive managers manage financing policies more actively by monitoring capital-market conditions in real time. Notably, equity attention also predicts debt issuance and vice versa (Cross-Market Predictability)—suggesting that attentive managers develop broader capital-market awareness that facilitates access to external finance across markets

Dep. Var.: Net Equity Issue Indicator	(1)	(2)	(3)	(4)	(5)	(6)
Ln(1+IAFM Equity) × NFD	0.0553***		0.0399***	0.0641***		0.0522***
	(3.760)		(2.844)	(4.663)		(3.834)
Ln(1+IAFM Equity)	-0.0448***		-0.0439***	-0.0208***		-0.0208***
	(-10.81)		(-10.56)	(-4.695)		(-4.701)
Ln(1+IAFM Debt) × NFD		0.143***	0.130***		0.116***	0.0976***
		(4.762)	(4.415)		(3.960)	(3.330)
Ln(1+IAFM Debt)		-0.0145***	-0.00527		0.000993	0.00368
		(-2.682)	(-0.984)		(0.166)	(0.613)
NFD	0.333***	0.343***	0.319***	0.204***	0.224***	0.192***
	(14.20)	(16.25)	(13.42)	(10.05)	(11.51)	(9.416)
Observations	33,981	33,981	33,981	33,073	33,073	33,073
Adj. R^2	0.223	0.221	0.224	0.428	0.427	0.428
Firm FE	No	No	No	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Mechanism analysis for financing policies: attention ⇒ more effective market timing
Hypothesis. Equity- and debt-market attention capture **distinct informational advantages** by shaping firms' responsiveness to market-specific conditions:
- ↑ Equity-market attention ⇒ ↑ responsiveness to equity-market conditions
- ↑ Debt-market attention ⇒ ↑ responsiveness to debt-market conditions

$$\text{Equity vs Debt}_{i,t} = \alpha_{t,j} + \eta_i + \omega_1 NFD_{i,t} + \omega_2 \ln(1 + IAFM_{i,t-1}) + \omega_3 \big[\ln(1 + IAFM_{i,t-1}) \times NFD_{i,t}\big] + \omega_4 \big[\ln(1 + IAFM_{i,t-1}) \times \text{Market Condition}_{i,t}\big] + \omega_5 \big[NFD_{i,t} \times \text{Market Condition}_{i,t}\big] + \omega_6 \big[\ln(1 + IAFM_{i,t-1}) \times NFD_{i,t} \times \text{Market Condition}_{i,t}\big] + \gamma\, CONTROL_{i,t-1} + \varepsilon_{i,t} \quad (3)$$

where $Market\ Condition_{i,t}$ denote (equity or debt) market conditions that make equity financing more **favorable** relative to debt financing. I restrict the sample to firms that tap ext. capital but must choose between equity and debt to address the concern that attention merely proxies for capital demand.
Result. Equity attention amplifies issuance shifts toward equity when (normalized) price or market sentiment is high. **Debt attention** predicts avoidance of debt issuance when interest rates rise.
Implication. Attention is a strategic capability enabling firms to recognize and exploit financing windows across markets—**the first direct evidence of market timing theory**

Dep. Var.: Equity Issue vs Debt Issue	(1)	(2)
Ln(1+IAFM Equity) × NFD × Δ in Equity Market Sentiment	0.0154**	
	(2.152)	
Ln(1+IAFM Equity) × Δ in Equity Market Sentiment	0.00157	
	(0.630)	
NFD × Δ in Equity Market Sentiment	-0.00474	
	(-0.606)	
Ln(1+IAFM Equity) × NFD × Equity Market Sentiment		0.0990***
		(3.426)
Ln(1+IAFM Equity) × Equity Market Sentiment		-0.00674
		(-0.740)
NFD × Equity Market Sentiment		-0.0472*
		(-1.667)
Ln(1+IAFM Equity) × NFD × Year-End Q	0.0171***	0.0180***
	(3.173)	(3.411)
Ln(1+IAFM Equity) × NFD	-0.0873***	-0.0981***
	(-3.132)	(-3.423)
Ln(1+IAFM Equity) × Year-End Q	-0.000349	-4.63e-05
	(-0.102)	(-0.0136)
Observations	14,586	14,586
Adj. R^2	0.579	0.579
Firm FE	Yes	Yes
Industry-by-Year FE	Yes	Yes

Dep. Var.: Equity Issue vs Debt Issue	(1)	(2)
Ln(1+IAFM Debt) × NFD × Δ in Interest Rate	0.111*	
	(1.890)	
Ln(1+IAFM Debt) × Δ in Interest Rate	-2.09e-05	
	(-0.00185)	
NFD × Δ in Interest Rate	-0.0365*	
	(-1.880)	
Ln(1+IAFM Debt) × NFD × Interest Rate		4.013
		(0.757)
Ln(1+IAFM Debt) × Interest Rate		0.473
		(0.540)
NFD × Interest Rate		-1.186
		(-0.772)
Ln(1+IAFM Equity) × NFD × Year-End Q	0.0138**	0.0136**
	(2.542)	(2.572)
Ln(1+IAFM Debt) × NFD	-0.313***	-0.390***
	(-6.726)	(-3.149)
Ln(1+IAFM Equity) × NFD	-0.0555**	-0.0516*
	(-1.963)	(-1.847)
Ln(1+IAFM Equity) × Year-End Q	6.24e-05	-1.09e-05
	(0.0184)	(-0.00324)
Observations	14,586	14,586
Adj. R^2	0.582	0.582
Firm FE	Yes	Yes
Industry-by-Year FE	Yes	Yes