

Discussion of:
“Is Talk Cheap Online: Strategic Interaction in A
Stock Trading Chat Room”

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How does communication affect trading decisions?



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- **model + interesting data = promising paper!**

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- derive optimal strategies in case **without** and **with** communication
- optimal for informed to join group
 - post info (after position), realizing true value quicker
 - also gain from trading against uninformed when neutral signal

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Contrast your model to other models with strategic trading

- strategic trading by informed (e.g. Kyle 1985)
 - your market maker: linear pricing rule $\rightarrow \lambda$ (as Kyle)
 - no noise traders, informed trading at $t_0 \Rightarrow$ perfect revelation
 - informed maximize profit by spreading trades over time (outweigh the time discount?)

Competition among informed?

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“no-trade” outcome (Milgrom/Stokey, 1982)

- if uninformed trade for pure speculative reasons \Rightarrow optimal to forgo trading than face a certain loss to informed
- in no-info state S_M loose to informed
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Overall: interesting model, needs more detailed explanation and discussion in the paper

Empirical tests:

- test three model implications
 - H1: medium skilled traders post more
 - H2: skill is negatively related to the propensity to follow others
 - H3: skillful traders are followed more often
- use a sample of logs from a trading chat room
 - more than 2000 individuals (semi professionals)
 - chat logs covering 18 trading days (October 2000)
 - entries time stamped to the minute
 - identify fundamental-, technical- and trading posts

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 - descriptive stats on posts and trades
 - characteristics of securities they trade (size, volatility etc.)
- free entry, anonymous and voluntary posting
 - self selection? (only post some of their trades)
 - IT boom - "pump and dump" schemes via message boards
 - was that observed in chat rooms too?

Measuring investor skill:

- profit per trade for trader j (diff. between sell and buy price)
 - should be relative to something (e.g. the market, Fama/French, average portfolio return of all the traders in the chat room)
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- average number of trades per poster is around 1.7
 - enough to distinguish skill from luck?
 - statistics across skill levels would be useful for interpreting the results (e.g. trading and posting activity, security characteristics)

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Are the fundamental (informed) posts related to skill?

- ..or just “cheap-talk”? $\rightarrow FP_j = f(\pi_j)$
- look at cases where fundamental posts are followed by a trade
- ..or assume that the poster traded on the information